Walt Disney Productions Annual Report

1 9 8 4

FINANCIAL HIGHLIGHTS

(In thousands, except per share data)	1984	1983	Change
Revenues	$1,655,977	$1,307,357	+27%
Net income	97,844	93,160	+5%
Per share	2.73	2.70	
Cash dividends	40,941	41,100	
Per share	1.20	1.20	
Additions to entertainment attractions and other property	182,051	291,202	−37%
Additions to film production and programming costs	127,936	84,518	+51%
Stockholders equity	1,155,485	1,400,528	−17%
Per share	34.26	40.58	

PRESENTATION OF THE FINANCIAL INFORMATION

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management has also included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants examine the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position. The independent accountants' report is set forth on page 36.

The Board of Directors of the Company has an Audit Review Committee composed of three nonmanagement Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

Management's explanation and interpretation of the Company's overall operating results and financial position, together with the basic financial statements, are set forth in the Financial Review section of this report beginning on page 28 and should be read in conjunction with the entire report. For readers desiring additional detailed financial information, the notes to consolidated financial statements, although an integral part of the basic financial statements, are included in a separate section of this report (see Index on page 36).

MICHAEL D. EISNER
Chairman and Chief Executive Officer

Michael D. Eisner was elected Chairman and Chief Executive Officer of Walt Disney Productions in September 1984.

Formerly President and Chief Operating Officer of Paramount Pictures Corporation for eight years, Mr. Eisner was closely involved in that studio's major motion picture successes during his tenure, including "Saturday Night Fever," "Grease," "Raiders of the Lost Ark," "Indiana Jones and the Temple of Doom" and "Terms of Endearment." He also was instrumental in Paramount's lineup of hit television series, including "Happy Days," "Taxi" and "Cheers." During Mr. Eisner's tenure, Paramount Pictures Corporation enjoyed unprecedented success, achieving six consecutive fiscal year records for revenues and earnings.

Prior to joining Paramount, Mr. Eisner was Senior Vice President, Prime Time Production and Development, for ABC Entertainment. Under his leadership, ABC became the No. 1 prime time network through development of series, limited series, and motion picture programming. Earlier, ABC gained network leadership in daytime, early morning and children's programming under Mr. Eisner's direction.

Mr. Eisner began his career in the entertainment industry at CBS Television with the network's programming department.

A native of New York City, Mr. Eisner attended Lawrenceville School and graduated from Denison University of Granville, Ohio.

Mr. Eisner presently serves on the boards of Denison University, the California Institute of the Arts, the American Film Institute, and the Performing Arts Council of the Los Angeles Music Center.

He is married to the former Jane Breckenridge. They have three sons, Michael, Eric and Anders.

FRANK G. WELLS
President and Chief Operating Officer

Frank G. Wells was elected President and Chief Operating Officer of Walt Disney Productions in September 1984.

Previously, Mr. Wells was Vice Chairman of Warner Bros., Inc., the motion picture subsidiary of Warner Communications. During 15 years with Warner Bros., Mr. Wells also served as Vice President West Coast (1969), President (1973) and as Co-Chief Executive Officer (1977).

Before his association with Warner Bros., Mr. Wells was a partner in the Hollywood law firm of Gang, Tyre and Brown practicing in the field of entertainment industry law for 10 years.

A Phi Beta Kappa graduate of Pomona College at Claremont, California, Mr. Wells attended Oxford University as a Rhodes Scholar and later earned an LLB degree from Stanford University.

The son of a career U.S. Navy officer, Mr. Wells is a native of Coronado, California. He served two years in the U.S. Army, earning the rank of first lieutenant.

Mr. Wells has had the personal goal of scaling the summits of the highest mountains on each of the seven continents. With the exception of Mt. Everest, from which he was forced to turn back a day away from the top, he achieved his objective during 1983.

Mr. Wells serves on the board of his alma mater, Pomona College.

He and his wife, Luanne, have been married more than 25 years. They have two sons, Kevin and Briant.

TO OUR OWNERS AND FELLOW DISNEY EMPLOYEES

We would like to begin our first shareholder letter by expressing our great appreciation for having the opportunity to be part of Walt Disney Productions — the world's best known and most respected family entertainment company.

We joined Disney at the culmination of the most difficult period in the company's 61-year history. During 1984 the corporation was affected dramatically by outside influences. The year was marked by both new business challenges and the arrival of a new management team.

On September 22, we joined 28,000 other dedicated employees who are eager to build and create value through excellence. As the newest "cast members" of Walt Disney Productions, we are both enthusiastic and respectful in becoming a part of a corporate culture that is unparalleled in American industry. As we approach our task of building Disney excellence around the world, we do so with a sense of pride and humility in following previous management successes in producing animated classic motion pictures, imaginative theme parks and entertainment magic.

As we have publicly stated, Ron Miller and Ray Watson, following several of the plans put in motion by the far-sighted team of Card Walker and Donn Tatum, clearly set the right track in positioning Disney's resources and directions for significant growth and improved returns on investment.

Among their achievements were the establishment of Touchstone Films as Disney's second motion picture identity, the acquisition of the Arvida Corporation — a premier community planning and development firm that will contribute enormously to improving the values of Disney's significant land holdings — plans for a European Disneyland, and the creation of The Disney Channel, a concept that we believe is destined to become a leading revenue source in the years ahead.

We are also extremely grateful for the personal support and investment commitment of Fort Worth's Bass family. By increasing their holdings in Disney common stock to approximately 25 percent of the outstanding shares, enthusiastically endorsing present management, and declaring their belief in the long-term investment value of the company, these investors have brought stability to the company and, at the same time, appreciate our full commitment to building maximum shareholder values.

Turning to the fiscal year ended September 30, 1984, revenues increased 27 percent to $1.65 billion, marking the 17th consecutive year of Disney revenue growth. Net income increased five percent to $97.8 million, or $2.73 per share, compared to $93.2 million, or $2.70 per share a year ago. Significantly, operating income rose 32 percent to $291 million.

However, the company reported a loss of $64 million for the fourth quarter, reflecting certain unusual charges.

Before the unusual charges and an accounting change for investment tax credits recorded in the first quarter of fiscal 1984, net income for the year increased 16 percent to $107.8 million, or $3.01 per share as compared to $93.2 million, or $2.70 per share a year ago.

The unusual charges totaled approximately $166 million. The charges included a provision for write-downs of motion picture properties in release, production and development to their estimated net realizable values and the abandonment of certain conceptual theme park projects in preliminary design and development.

After thorough analysis and evaluation of the company's various growth options, we have written down or abandoned those assets which we believe do not have continuing value in relation to newly defined corporate strategies and emerging business opportunities.

In addition, fiscal 1984 reporting reflects a change in accounting for investment tax credits from the deferral method to the flow-through method. This change resulted in the realization of $76 million in previously deferred tax credits as part of net income. This new accounting method brings the company into conformity with entertainment industry standards as it is practiced by all other major motion picture studios.

Contributing substantially to increased revenue flows in 1984 was the success of our first Touchstone Films' production, "Splash," (which established a Disney record of $69 million in box office revenues in initial domestic release and is presently performing strongly in overseas markets), the continued rapid growth of the home video market, and the excellent results produced by Arvida in our new Community Development segment.

The Disney Channel was also an important factor in improved revenues for the Filmed Entertainment segment. It gained about one million subscribers in the fiscal year, despite a difficult year for the pay cable industry at-large. We continue to estimate that the channel will become profitable by mid-to-late 1985, when the projected average number of subscribers is expected to reach two million. At the end of fiscal 1984, we had achieved over 1.4 million subscribers.

Revenues for the Entertainment and Recreation segment, which includes our domestic theme park operations as well as royalties from Tokyo Disneyland, also rose 6 percent to $1.09 billion.

Walt Disney World attendance,

including the Magic Kingdom and Future World/World Showcase at Epcot Center, totaled 21.1 million compared to 22.7 million in 1983. While exciting plans are underway to bolster 1985 attendance, last year's figures were satisfactory. Attendance in 1984 suffers only by comparison with the prior year which was influenced by the extraordinary promotion and publicity associated with the opening of Future World-World Showcase.

In California, Disneyland attendance began at a rate exceeding expectations, primarily due to the theme park's all-new Fantasyland attraction, but year-long revenues were ultimately impacted in the second half by the summer Olympics in Los Angeles. Despite a sharp decline in tourism, yearly attendance at Disneyland reached 9.8 million, compared to 9.9 million a year ago.

Overall, fiscal 1984 results from recurring operations were very positive, and we are optimistic that significantly higher performance levels can be achieved in the years immediately ahead.

Our job, essentially, is to accelerate Disney even further into the mainstream of American entertainment. We will do this by emphasizing creativity in every aspect of the company's business. This challenge requires that we give great latitude, within pre-set financial boundaries, to the resources at hand while at the same time carefully managing Disney's largely untapped treasure of assets — in particular our splendid film and television library.

We are shaping our management team, our management style, our organization and our resources with the aim of achieving high objectives in each separate business enterprise. We will be entrepreneurs, continuously looking at new markets, new opportunities and long-term growth potential for our unified business structure.

Our financial results make it clear that an imbalance is created by the fact that the Entertainment and Recreation segment is a disproportionately large source of income.

Therefore, the first objective in our new business plan calls for a dedicated effort to improve performance in *every* area. We intend to achieve a greater degree of balance between the various sectors in order to avoid substantial swings in income due to possible adverse effects on a single line of business.

Among our corporate goals is assuring the success of The Disney Channel, returning Disney to an industry leadership role in motion pictures and network television, expanding film distribution in both underutilized and untapped ancillary markets, accelerating land development, and extending our important Consumer Products business.

At first opportunity, we met famous Disney characters.

All of these objectives will be reviewed constantly while we continue to focus on methods of increasing theme park revenue. For example, new priorities are being given to aggressive, quality marketing and advertising support for Disneyland, which celebrates its 30th Anniversary throughout 1985, and we have already planned a series of exciting new attractions at Disneyland and Walt Disney World.

Last October, the finely crafted Morocco pavilion opened at World Showcase and we are on schedule with Future World's "The Living Seas" pavilion to be presented by United Technologies, scheduled for opening in early 1986. In addition, new types of theme park rides and attractions with special appeal for younger guests are soon to move from drawing board to reality.

Increased motion picture production is an urgent priority, with the aim of achieving parity with other major Hollywood studios and improving fundamental earnings in filmed entertainment. Our goals are to release 10 to 15 live-action features annually within three years. These offerings will be consistent with the high standards of quality and good taste for which the Disney name is known and valued around the world.

To lead Disney into the mainstream of contemporary film-making and television, we are fortunate to have attracted one of the most respected motion picture executives in our industry, Jeffrey Katzenberg. He comes to us as the highly successful former president of the motion picture production division of Paramount Pictures.

Jeffrey has been named President of our Motion Picture and Television division with responsibility for all production, marketing and distribution of theatrical motion pictures and television programs. He brings to our organization extensive entertainment industry experience and relationships. In addition, he is legendary for his remarkable capacity for tireless hard work.

The great legacy of Disney animation will be given renewed

emphasis. We have a wealth of superb, experienced talent, a totally unique creative force. "The Black Cauldron," scheduled for its premiere at Radio City Music Hall in New York next summer, is the most ambitious and far-reaching animation project since the making of "Fantasia."

In our former positions, we frequently envied the company that had already "built the product" and "needed only" to market it effectively. In Disney, we inherited that wonderful circumstance, with the incredible Disney film and television library.

The library is extensive and diverse and we believe substantial income can be realized from it over the next decade without damaging its future.

Carefully and sensitively managed, selective offerings to network television, syndication, the explosive video cassette market and pay cable services present extraordinary opportunities for revenue growth.

We are convinced that a plan can be orchestrated that will allow expansion in the ancillary markets without competing directly with The Disney Channel or inhibiting theatrical reissue of our classics. In fact, we believe that such an approach can actually increase public appetite for Disney products and increase the demand for the pay service.

In community development, Arvida is a well positioned new resource with excellent growth potential.

The assets Arvida brings to Disney include more than 20,000 acres of prime landholdings near major urban areas, a proven management team and a successful formula for developing high-quality, planned communities.

In order to capitalize on the acquisition, we have formed the Arvida/Disney organization to oversee all of our Community Development activities. It is composed of senior executives from both of our companies, led by Charles E. Cobb, Jr.

Arvida/Disney personnel are already working intensively together, shaping new and venturesome plans. Their priorities are to accelerate the development of Arvida's existing communities, prepare a new master plan for Walt Disney World properties, expand our real estate financial services, and assist the company in such matters as determing the best site location for a Euro-Disneyland.

The Consumer Products segment, which has consistently enlarged

and visited with 5,000 cast members at the Magic Kingdom.

character and product merchandising business through the years, will play an even broader entrepreneurial role in the future through its association with a Saturday morning cartoon series and the development of new character merchandising "stars."

In addition, a new, full line of designer Disney sportswear for women was created by J. G. Hook and is being offered in 2,000 stores throughout the country. The line of women's clothing and accessories will bear the "Mickey and Co." label. Character merchandising also has licensed 85 products in support of 1985 motion picture offerings and their appealing new characters.

The company remains financially strong, despite the turmoil of the past year and increased borrowings. As part of our overall financing strategy, we are restructuring our long-term debt to minimize interest costs.

We recently completed a \$150 million Eurobond offering at an attractive rate which enabled us to retire higher-interest debt. We continue to be flexible in our ability to react to changing financial conditions.

As we set our direction, a very succinct explanation of our management philosophy is simply this: We intend to address ourselves daily, in all of our businesses, to achieving maximum long-term shareholder values.

At the same time, our efforts in shaping change and new directions will be made with the understanding that Disney is an institution. We do not intend to depart from its uniqueness. It is a heritage to be constantly nurtured and protected. We owe nothing less to our stockholders, our employees and to future generations of audiences.

We clearly recognize the legacy of a true creative genius of the twentieth century, Walt Disney.

We also acknowledge that we cannot rely on the Disney name and reputation alone to satisfy all the entertainment tastes of a new generation. Our objectives are to not only manage and aggressively market existing values and ideas, but to take our company to a leading position in today's entertainment industry.

That is our commitment and the certain path to assuring the best possible return on investment for Disney shareholders.

Michael D. Eisner — Michael D. Eisner, Chairman and Chief Executive Officer

Frank G. Wells — Frank G. Wells, President and Chief Operating Officer

Entertainment and Recreation

If ever a business was founded on imagination, it was Walt Disney outdoor entertainment. It was imagination that so perfectly blended the visual skills and storytelling creativity of the filmmaker with the excitement of unique attractions to create the Disney theme park. The result was a new dimension in entertainment that has continued to delight audiences for nearly 30 years.

Since the debut of Disneyland in 1955, Walt Disney outdoor entertainment has grown to include Walt Disney World in Florida and Tokyo Disneyland in Japan, owned and operated by the Oriental Land Company. Together these three areas have hosted more than 400 million guests during the last 29 years. Last year, our theme park revenues exceeded $1 billion for the second consecutive year, and were almost four times greater than revenues achieved ten years ago.

Walt Disney World alone attracted more than 21.1 million guests during 1984, an attendance level that pales only in comparison with 1983, when extraordinary promotion accompanied the opening of Future World-World Showcase at Epcot Center. Reflecting the drop in tourist activity in Southern California during the 1984 Summer Olympics, attendance at Disneyland was down slightly from the previous year with 9.9 million guests. And Tokyo Disneyland actually exceeded 10.1 million guests in its first full year of operation.

Walt Disney World

Future World-World Showcase, celebrating its second year of operation, continued to earn its reputation as the nation's most advanced entertainment complex, adding to its collection of world cultures and wonders of the technological age.

Crowning the list of exciting premieres was the Kingdom of Morocco pavilion, representing the tenth nation in World Showcase. Presented entirely by the Moroccan govern-

Richard A. Nunis
Executive Vice President – Walt Disney World and Disneyland

ment, the "Jewel of Africa" took its place between Japan and France in gala September ceremonies attended by Her Royal Highness Lalla Meriem, daughter of King Hassan II.

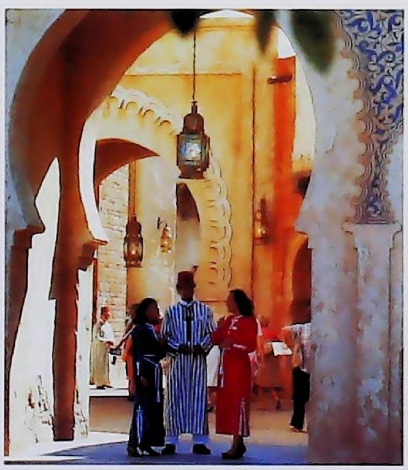
Keeping in stride with technological advances, Future World also featured an important addition. Debuting there in CommuniCore was the sophisticated computer show, "Backstage Magic," presented by Sperry. The popular new show stars a character named I/O (Input/Output) who guides visitors on an entertaining and educational tour of the electronic maze which controls everything from the theme park's "Audio-Animatronics" presentations to leaping water fountains.

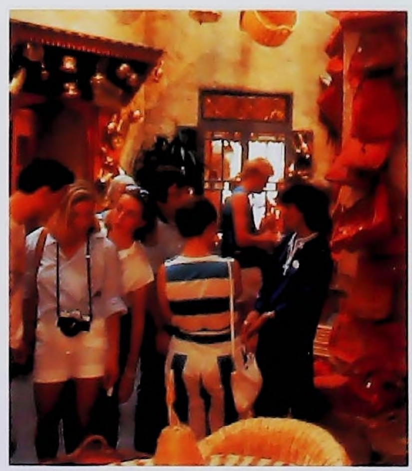
There was even more fun for nighttime visitors to World Showcase with the addition of "Laserphonic Fantasy." Visitors ringed the lagoon to view the explosion of computer-controlled lights, color, and classical music which combined with spectacular fireworks and laser images in the sky.

And, contributing to Future World's purpose of broadening knowledge and understanding, CommuniCore's Future Choice Theater offered guests the opportunity to vote their opinions on a variety of more timely and controversial issues. Tabulated results of the Epcot Poll are reported weekly through United Press International and other media.

For 1985, continuing enhancement of Future World/World Showcase will include the China pavilion's Nine Dragons Restaurant, opening in September, and further development of The Living Seas pavilion, opening early in 1986 as the eighth major Future World attraction. Presented by United Technologies Corp., The Living Seas will include a close-up of a Caribbean coral reef with its marine life, demonstrations of ocean technologies and food production, and an underwater restaurant.

At the Magic Kingdom, summertime spectaculars and special entertainment highlighted the year. And, in





Scenic new wonders and ancient cultures continue to enhance the recreational experiences of guests at Future World/World Showcase. Clockwise from left: the Laserphonic Fantasy show lights the night sky over World Showcase Lagoon, Future World's The Living Seas pavilion takes shape near Spaceship Earth, and the beautiful Morocco pavilion in World Showcase duplicates the heritages and crafts of a storied African nation.

a unique tribute to Donald Duck's 50th Birthday Celebration, parades on Main Street featured more than 100 Disney characters, bands, floats and singers. An unusual addition to the parade was a contingent of 50 live Peking ducks wearing party hats, waddling in unison behind Donald. Trained since birth to follow their costumed cousin, the ducks were a hit with millions of guests.

By popular demand, a new "Electrical Parade" will return next summer at both the Magic Kingdom and Disneyland.

Hotel accommodations at Walt Disney World will be enhanced by the completion of a 500-room expansion program in June. This increase will bring on-site guest accommodations to more than 5,300 hotel rooms and villas. The expansion includes 217 new rooms for the Polynesian Village Resort, 138 additional rooms at the Golf Resort, and 184 new Club Lake Villas.

As a result of comprehensive studies by the management of our theme parks, operational forces have been restructured to streamline responsibilities and improve efficiency.

Outside actual theme park and resort operations, Bombardier Inc. of Montreal, Canada, has been licensed to build, market, and operate both the WEDway PeopleMover and Monorail train systems developed by Walt Disney Productions. Bombardier, the largest manufacturer of transit vehicles in North America, has manufacturing facilities in Canada, the United States, and Austria.

DISNEYLAND

The reopening of the Alice in Wonderland attraction in April marked the

completion of Disneyland's all-new Fantasyland. Recreated in part as a three-dimensional version of the 1941 Disney classic film, the attraction joined the Mad Tea Party and Mad Hatter Hat Shop to form its own Wonderland.

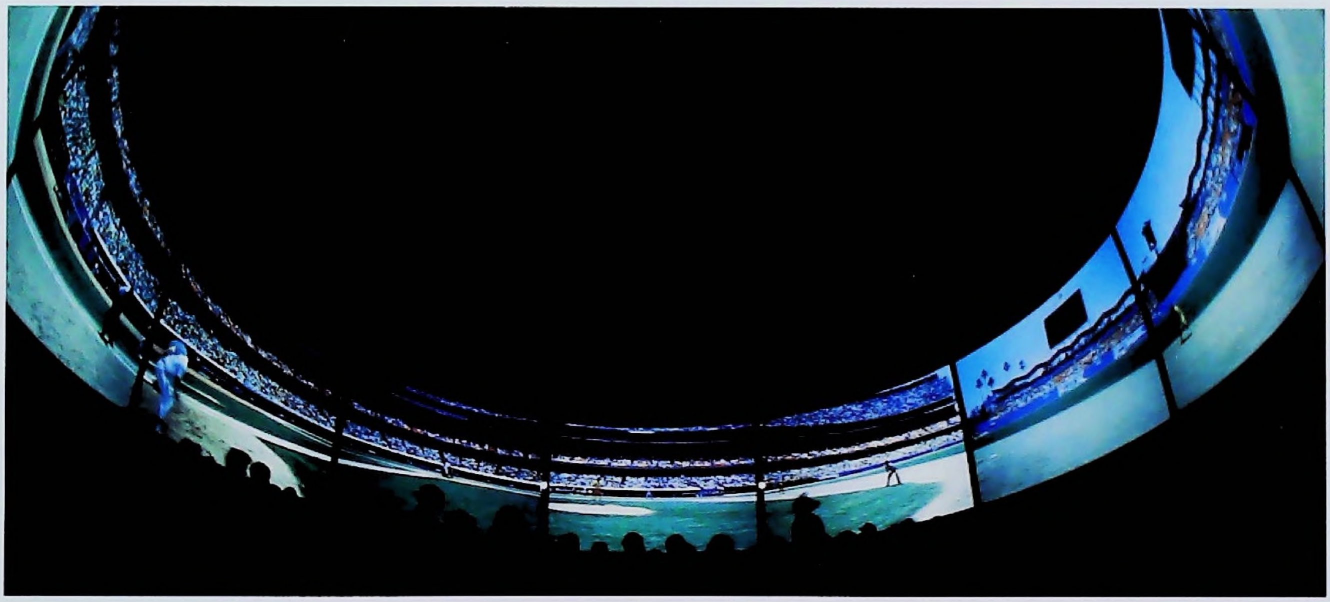
Attractions featuring new motion pictures also rated high with Disneyland guests in 1984. "American Journeys," presented by PSA, and representing technical advancements in Circle-Vision 360 photography, replaced the long-running "America the Beautiful" in Tomorrowland. The new presentation takes viewers from ballooning in Monument Valley to riding an outrigger canoe at Waikiki to skimming the ice floes of Alaska.

Also in Tomorrowland, Disneyland guests were treated for the first time to "Wonders of China" in Circle-Vision format, and Kodak's "Magic Journeys," a technically superior 3-D film. Both films were originally created for Future World World Showcase and, until this year, were available only in the Florida park.

Along with the year-long celebration of Donald Duck's 50th birthday, Disneyland's Bear Country featured a brand-new Christmas holiday show in the Country Bear Jamboree. For 1985, Disneyland looks forward to a banner year, and another year-long celebration — for its own 30th anniversary.

The "And the Best Has Just Begun" 30th year program is supported by the largest advertising and publicity campaign in Disneyland history. Gifts will be distributed as a "thank you" to guests during the entire calendar year, including a new General Motors car on the average of one a day.

With the WED-built "Gift Giver Extraordinaire," keeping a precise com



Viewing the 3-D film "Magic Journeys," left, young Disneyland guests appear as awed as Donald Duck, whose daily parades at the Magic Kingdom included an admiring entourage of live Peking ducks in party hats. Other new theme park attractions in 1984 included the new Circle-Vision 360 film "American Journeys," presented at both Disneyland and the Magic Kingdom, and Disneyland's all-new Alice in Wonderland show, where ride-through delights include a scolding Queen of Spades.

puter count of ticket holders entering the main gate. Disneyland cast members will present special gifts to guests entering on counts of 30, 300, and 3,000. Visitors entering at the 30,000, 300,000, and 3,000,000 milestones will receive automobiles.

Two duplicate Grand Prizes, which include a 1985 Cadillac, 30,000 free miles of travel on Eastern Airlines, and 30 days at Disney Theme Park Resorts, are also planned. These will be awarded to Disneyland's 250 millionth guest, expected to enter the park during the summer, and to the person who comes closest to guessing the month, day, and time of this historic entry.

Disneyland's 30th Year festivities will receive national television coverage through a variety of shows originating at the park, including "Good Morning, America," "Today," "Donahue," and "Merv Griffin." Adding its own salute, NBC will present a two-hour special, "Disneyland's 30th Anniversary" in February.

TOKYO DISNEYLAND

Tokyo Disneyland, our first international theme park, continues to prove that Disney entertainment is enjoyed the world over.

Mirroring the fantasy and fun of its American counterparts, the theme park, located on the fringes of Tokyo Bay, welcomed more than 10 million guests during its first year of operation — an attendance nearly triple the number of guests who visited Disneyland during its opening year in 1955.

An all-time record for one-day attendance at any theme park was set at Tokyo Disneyland in 1984, when, on August 13th, 111,467 guests visited the park.

In addition to traditional Disney attractions — shops, restaurants, special entertainment, and spacious promenades — Tokyo Disneyland also highlights Japanese cultures and traditions.

Owned and operated by Oriental Land Company of Japan, under a license and royalty agreement with Walt Disney Productions, Tokyo Disneyland has become one of the most popular holiday destinations in Japan, and is an unqualified success.

To accommodate the increasing attendance, Oriental Land Company is working with Disney on masterplan projects designed to expand the park and enhance the overall show.

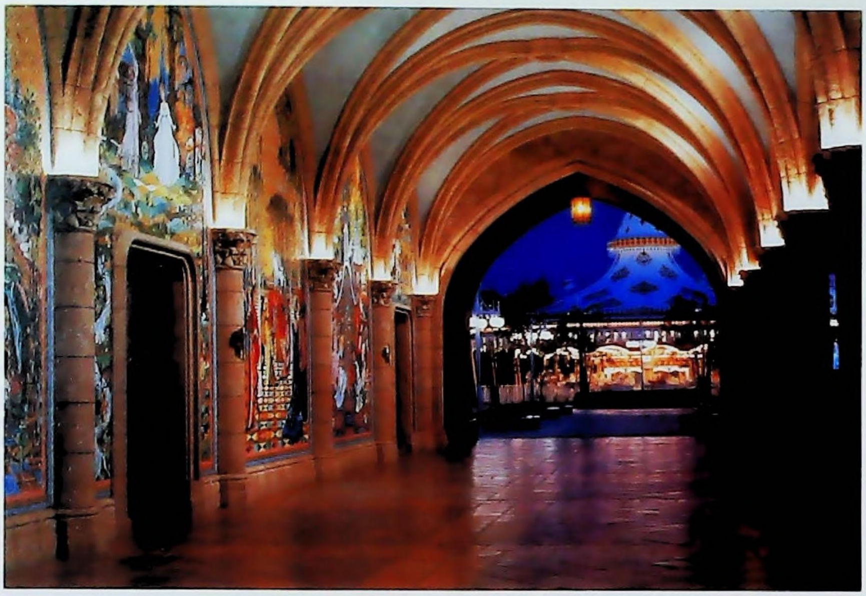
The Main Street Cinema has replaced its silent films with popular Walt Disney cartoons, and the Eternal Seas Theatre, converting to a 3-D film format, is scheduled to open in January. Also, due to popular demand, a Japanese-style restaurant, The Restaurant Hokusai, debuted on the second floor of World Bazaar.

Coming soon to Tokyo Disneyland is the all-time favorite, the Electrical Parade, scheduled to stop off in spring of 1985, the Tomorrowland Theatre, with accommodations for 2,600 guests to view a variety of live performances, a Castle Tour premiering in 1986, and Big Thunder Mountain Railroad, scheduled for installation in 1987-88.

ENTERTAINMENT AND RECREATION
(In thousands)

	1984	Change	1983	Change	1982
Revenues	$1,097,359	+6%	$1,031,202	+42%	$725,610
Operating income	192,695	−2%	196,878	+48%	132,645
Operating margin	18%		19%		18%
Theme park attendance	30,990	−5%	32,692	+42%	22,981

Total theme park attendance was down 5% from the prior year. Comparison with fiscal 1983 is difficult due to the extraordinary promotion and publicity associated with the opening of Epcot Center in October, 1982. Disneyland attendance was up 6% for the first nine months in 1984, due primarily to the park's all-new Fantasyland attraction which opened in the summer of 1983; however, the 1984 summer Olympic Games adversely affected results for the fourth quarter causing overall attendance for Disneyland to be about



Proving the international appeal of Disney's famous characters and theme parks, Tokyo Disneyland attracted more than 10 million guests in its first year of operation, ended April 15th. Among the familiar Disney landmarks on the fringes of Tokyo Bay, the Space Mountain attraction appears a reflection of distant Mt. Fuji, Japan's most famous symbol.

even with the prior year.

Increased revenues for fiscal 1984 reflect higher per capita guest spending at the theme parks and resorts and the inclusion of a full year of royalties from Tokyo Disneyland. Per capita guest spending was favorably influenced by admission price increases in fiscal 1984 (October, 1983 and June, 1984) averaging 16% at Walt Disney World and 10% at Disneyland. In fiscal 1983, revenues were up from 1982 primarily due to the opening of Epcot Center and an admission price increase averaging 13% at Walt Disney World.

Costs and expenses were higher for fiscal 1984 principally due to higher labor costs at Walt Disney World, as well as higher depreciation and property tax expense due to the opening of Epcot Center. Negotiated labor rates and benefits increased by an average of 14% at Walt Disney World and 7% at Disneyland as compared to 7% and 10% increases in 1983 and 9% and 11% in 1982 respectively. The rate increases in 1984 resulted in higher labor costs which could only be partially offset by planned reductions in labor hours in the last six months of operations.

Gross profit margins for food and merchandise continue a three year trend of improvement; however, the 1984 overall operating margin dropped to the 1982 level due to the decline in overall attendance combined with the higher operating costs and expenses discussed previously.

MOTION PICTURES AND TELEVISION

Walt Disney Pictures marked the 45th anniversary of the Studio's operations in Burbank by broadening the audience appeal of theatrical releases.

With management philosophies firmly committed to new trends, motion picture production will be significantly expanded in the future. Our objectives include achieving production volumes consistent with other major motion picture companies within two to three years, while continuing Disney's reputation for high-quality and standards in the entertainment marketplace. New priorities at Walt Disney Pictures include:

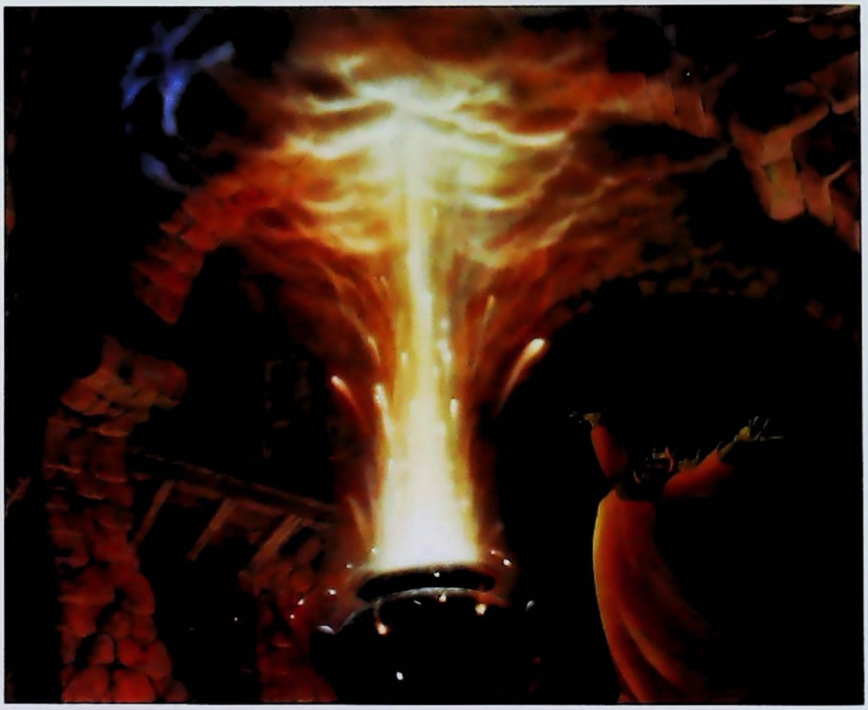
- ☐ *Concentration on using the entertainment industry's finest writing, directing and producing talent.*
- ☐ *Development of original ideas and quality entertainment features, for all audience levels.*
- ☐ *Production of 10 to 12 Touchstone Films' features, and three to four new family pictures on an annual basis.*
- ☐ *Acceleration of animated feature productions, with a new release planned each 18 months, and*
- ☐ *Continued reliance on the Disney library for two to three film reissues each year.*

In terms of television, the Studio is equally intent on becoming a major supplier of network programming, as well as programming for syndicated and pay television markets. Emphasis will include original offerings for a prime-time comedy series, animated cartoons for Saturday morning children's shows, and programming for cable companies.

In addition, intensified use will be made of material in Disney's extensive film library for a wide variety of markets, including The Disney Channel and home video areas.

The emphasis on sharply increased volumes in motion pictures follows decisions made earlier in 1984 to re-establish Disney in the mainstream of today's motion picture audiences.

The success of this emphasis was buoyed by the delightful romantic comedy "Splash," released in March under the new Touchstone Films label, which distinguishes Disney productions for more mature audiences. Starring Daryl Hannah as a mermaid and Tom Hanks as a lovestruck young businessman, "Splash"



Jeffrey Katzenberg
President of Walt Disney Motion Pictures and Television

grossed a Disney record $69 million in U.S. release.

"Never Cry Wolf," the beautifully photographed Carroll Ballard film released during the 1983 Christmas season, also scored impressive reviews and box office performances through the spring months. And "The Jungle Book," the last animated feature on which Walt Disney personally worked, grossed $25 million in the United States and Canada following its third reissue in July.

Closing out fiscal 1984, "Country," the second Touchstone Films' release, received extraordinary critical acclaim as it opened the prestigious New York Film Festival. Starring Academy Award winner Jessica Lange and playwright/actor Sam Shepard, "Country" is the contemporary drama of a hard-luck Iowa farm family threatened by foreclosure.

Beginning with the reissue of the classic animated feature "Pinocchio" during the holidays, Disney motion pictures will receive broader distribution and stronger promotional support than has been apparent in recent years.

For 1985, we are beginning a busier schedule of releases with a concentrated reissue of the animated classic "Fantasia," in February, followed by the third Touchstone offering, "Baby," during the Easter season. "Baby" stars William Katt, Sean Young and Patrick McGoohan in an adventure story centering around the discovery of a family of dinosaurs living in a remote African jungle.

During the summer, premieres of

A magical season awaits Walt Disney Pictures' audiences in 1985, beginning with the concentrated reissue of the animated classic, "Fantasia," top, in February. New releases for summer audiences are two of the most ambitious films ever made by Disney – "Return to Oz," starring Fairuza Balk as Dorothy, and a new cast of imaginative characters, and "The Black Cauldron," the Studio's 25th animated feature. Scheduled for late summer is "My Science Project," left, a live-action adventure-fantasy featuring a mysterious device that creates time and space warps.

two of the most ambitious Disney motion pictures ever produced — "Return to Oz" and "The Black Cauldron" — will be showcased with live stage performances by Disney entertainers at New York's spectacular 6,000-seat Radio City Music Hall.

"Return to Oz," premiering on May 24th, is a live-action adventure fantasy with 10-year-old Fairuza Balk as Dorothy, the Kansas farm girl who visits an enchanted land. "Return to Oz" introduces a new cast of imaginative characters as Dorothy attempts to rescue the Scarecrow, the Tin Man and the Cowardly Lion from the Nome King. Based on several of L. Frank Baum's 14 books, the film also stars Nicol Williamson, Jean Marsh, Piper Laurie and Matt Clark.

During its five-week opening at Radio City Music Hall, "Return to Oz" will share the spotlight with Disney singers and dancers performing 30-minute shows during intermissions.

A similar premiere and stage show format follows five weeks later with "The Black Cauldron," Disney's 25th animated classic. Shot in 70mm format, "The Black Cauldron" is an action-adventure fantasy based on medieval Welsh tales written by award-winning author Lloyd Alexander.

In addition to the film premieres and stage shows, Radio City Music Hall will become the site of a one-hour network television special on Disney during the summer.

Later in 1985, another Touchstone production, "My Science Project," will be released. The new live-action fantasy-adventure involves students battling a mysterious device which creates time and space warps. Starring are Richard Masur, John Stockwell, Dennis Hopper, Danielle van Zerneck and Fisher Stevens.

Throughout 1985, Walt Disney Pictures will accelerate objectives of boosting production of motion pictures for all audience levels.

Two to three years will be required to reach our desired production goals with new animated features, new family pictures, and new Touchstone productions.

Consistent with all of these goals are recent changes and new strategies designed to make the Studio more efficient, more productive and more profitable.

In the Animation Department, now staffed by 270 creative artists and support personnel, expanding workloads in television cartooning and animated feature productions are under the aegis of Vice Chairman Roy E. Disney, son of the company's co-founder, Roy O. Disney. Under Mr. Disney, intensive efforts will be made to incorporate technological advancements into the production and post-production processes, enabling improved schedules for feature releases without compromising quality.

James P. Jimirro
Executive Vice President – Telecommunications

THE DISNEY CHANNEL

"It is a curious thing that the more the world shrinks because of electronic communications, the more limitless becomes the power of the storytelling entertainer."

Walt Disney

The Disney Channel represents the perfect bridge for Disney's transition from the past into its future. It is Walt Disney theater in a contemporary dimension.

Just as Walt Disney was a pioneer in recognizing the potential of quality family television entertainment in the 1950's, leading the way to rapid expansion in color television, The Disney Channel has become a force in the pay cable universe.

After several years of explosive growth, the pay cable industry experienced a "watershed" year in 1984, pausing to regroup and consolidate its gains. However, The Disney Channel provided a dramatic counterpoint. In fiscal 1984, the channel added about one million new subscribers.

With 40 percent original programming, more than any other pay-TV service, The Disney Channel added a million subscribers in fiscal 1984 and continued its steady climb. Clockwise from left, The Channel's exclusive offerings include "Winnie the Pooh," the motion picture "Black Arrow," adapted from Robert Louis Stevenson's adventure classic, the popular new "Still the Beaver" series, with several of the original "Leave it to Beaver" cast members, and "Lots of Luck," a motion picture starring Disney favorite Annette Funicello.

As of September 30, 1984, more than 1,400,000 subscribers were receiving The Disney Channel via 1,700 cable operating systems, covering 19 million homes in all 50 states.

The cable industry's crucial problem has not been getting new customers but keeping old ones. In industry jargon, it's called "churn," the rate of subscribers asking to be disconnected from pay services. The industry's weaknesses contrast with the strengths of The Disney Channel.

Industry surveys clearly indicate that the primary reasons for churn are program duplication among the movie services, price versus value in the minds of consumers and subscriber resistance to R-rated programming.

The most gratifying reality about the channel has been its unprecedented audience response. The channel is well utilized, with the average subscriber home watching Disney some 22 hours a week. The head-of-household watches the channel eight hours a week. A study by the Los Angeles Times-Mirror cable operation indicates The Disney Channel represents the highest level of customer satisfaction among any of the services by far. That study reflected our own national surveys.

Other research revealed that when the consumer was asked to select the ideal pay cable service package, the most popular choice was Disney and HBO. The second most popular two-pay package was Disney and Showtime.

In New York City in October, the company announced an historic affiliation with Cablevision Systems Corporation that could have far-

reaching effect on the channel and the industry.

In a landmark agreement, Cablevision has agreed to carry the family-oriented pay-TV service on its systems for the next ten years. The agreement involves a minimum payment of $75 million to The Disney Channel over the period of the contract.

Exciting new opportunities and cutting-edge precedents were set into play by the deal.

First, we are honored by our association with Charles F. Dolan, an innovator, an industry opinion-maker and a cable pioneer who helped create Home Box Office and is Cablevision's general partner.

The arrangement sets a precedent for how we believe we should conduct our channel business in the future. It sets a pattern for similar long-term pacts with other Multiple Systems Operators. It enables us to work hand-in-hand with Cablevision to create more effective joint marketing campaigns, casting aside traditional adversarial buyer-seller relationships. In addition, the agreement enables Disney to enter the significant New York Metropolitan market.

Most important, the Disney Channel has been positioned as a key, foundation service on Cablevision systems, a persuasive endorsement to the industry from Mr. Dolan.

In another innovative departure, two-hour cassettes of actual Disney Channel programming will be marketed to overseas consumers in January in a number of English-speaking countries.

The channel has been retaining its audience with a programming mix that is meant to entertain, inform, educate and inspire. Forty percent of the 19-hours-a-day service is from the rich Disney library, 20 percent from acquisitions of compatible properties and 40 percent is original programming, which leads all pay-cable services.

In 1984, we produced five original motion pictures to air exclusively on our channel. They were "Love Leads the Way," starring Timothy Bottoms in the story of the first seeing-eye dog, "Black Arrow," adapted from Robert Louis Stevenson's adventure classic, "The Undergrads," starring Art Carney in a comedy about the generation gap, "Breakin' Through," a dance feature spotlighting Ben Vereen, and "Lots of Luck," starring Disney favorite Annette Funicello.

"Leave It To Beaver" also returned, after 20 years, in a new channel series called "Still the Beaver," with several of the original cast members. The story focuses on Beaver's tribulations in trying to adjust to life in the Eighties. Its initial episode demonstrated that our exclusive, original programming can successfully compete against the networks and pay-cable movie services by outperforming all other TV services during the competitive November "sweeps" rating period.

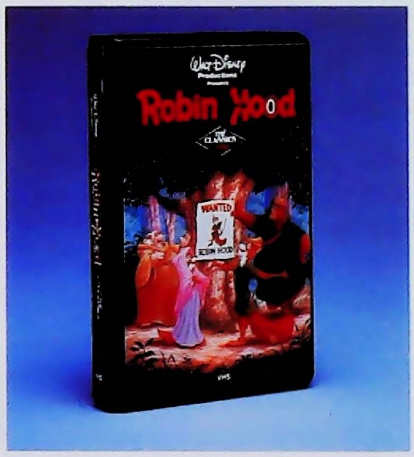
Other popular channel offerings include the "Five Mile Creek" dramatic series set in the Australian frontier, "The Edison Twins" with schoolboy detectives, the "DTV Show" with classic Disney cartoons set to contemporary music, "Big Bands from Disneyland," and "Epcot Magazine."

While subscriber count builds, the financial press has reported the channel's diminishing losses from quarter to quarter. We don't view it that way. Rather, we view these "losses" as excellent long-term investments in a business that represents a cornerstone of our future. In next year's report, we anticipate confirming that we will have passed our break-even point of two million subscribers and be operating at a profit.

HOME VIDEO

The worldwide home video industry, which barely existed in 1978, is expected to grow from 11 million prerecorded cassettes sold to dealers for $330 million in 1983 to an estimated 36.5 million cassettes to be sold by the end of 1985, with projected wholesale revenues of $660 million. An estimated $1 billion in wholesale video-cassette revenues by 1990 is not unrealistic.

As fast as the home video market grew in 1984, Disney's share of that market grew even faster. New releases of both animated and live action films,



FILMED ENTERTAINMENT
(In thousands)

	1984	Change	1983	Change	1982
Revenues	$244,552	+ 48%	$165,458	− 18%	$202,102
Operating income (loss)	2,249	+107%	(33,385)	−270%	19,639
Operating margin	1%		−20%		10%

Revenues increased in 1984 due to strong domestic theatrical film rentals, higher subscriber revenues from The Disney Channel which first aired in April, 1983, and higher home video cassette and disc sales.

Domestic releases in 1984 consisting of "Splash," "Never Cry Wolf" and the reissue of "Jungle Book" contributed to the increased total film rentals over the prior year. Foreign theatrical film rentals in 1984 were slightly lower than 1983; however, foreign revenues continued to be adversely affected by the strength of the U.S. dollar as compared to most foreign currencies.

As anticipated, pay television licensing agreements have declined over the past three years due to the withholding of product for airing on The Disney Channel. The Channel

supported by industry-pioneering national television advertising campaigns, doubled Walt Disney Home Video's revenues for the year in the United States and Canada. From a zero start-up business in 1980, the company has the potential to reach $100 million in revenues in 1985.

Videocassettes will create revolutionary growth in the entertainment industry over the next decade and the Disney organization expects to play a major role.

The U.S. potential for this business closely parallels the meteoric rise in the videocassette recorder population which has gone from about 600,000 in 1978 to 10 million in 1983 and jumps to a projected 40 million by 1990. Today the United States still represents only a small part of the global market.

Retail video outlets climbed to 20,000 from 7,000 two years ago and broadened in scope. Formerly comprised of specialty shops dealing only in home video sales and rentals, the market expanded to include home video departments in supermarkets, discount stores, department stores and bookstore chains.

Disney's Christmas 1983 home video promotion marked the first use of network television commercials in the industry. It resulted in orders for 225,000 cassettes worth $5 million in revenues. Following up on the breakthrough promotion, a summer campaign set an even higher record of 610,000 cassettes representing $12 million in revenues.

For a limited summer period, we issued seven new collections of vintage cartoon shorts labeled the Walt Disney Home Video Cartoon Classics Limited Gold Edition. The collection includes Mickey Mouse's debut on film, "Steamboat Willie," the first cartoon with Donald Duck and a number of the "Silly Symphonies." Each of the seven collections appeared regularly in the industry's "Top Twenty" sales charts. "Splash" was a consistent "Top Ten" performer and "Never Cry Wolf" did well.

Preorders for a Christmas 1984 "Wrapped and Ready to Give" promotion topped 390,000 cassettes, a jump of 159 percent over the prior holiday year. In addition, the animated, feature-length classic, "Robin Hood," made its videocassette debut, and is expected to generate more than $5 million in domestic revenues.

Fully 20 percent of the company's cassette revenues in 1985 will come from original programming that first appeared on The Disney Channel. Examples of Disney synergy building long-term assets includes the cassette releases of the channel's DTV series, "Five Mile Creek," and two made-for-television movies "Tiger Town" and "Gone Are the Dayes."

Disney home video products are now marketed overseas in 18 countries, with the addition of Spain and Japan during 1984. Disney programming, dubbed into Japanese, is being duplicated in Japan and distributed by Pony Inc., a division of Fuji Photo Film.

Among the most popular titles overseas were "TRON," "Herbie Goes Bananas," "Love Bug," "Mary Poppins," and "Dragonslayer." Also especially successful abroad were Donald Duck cassettes, tied to promotions for Donald's 50th birthday.

More than 100 Disney titles are now being offered to the fast-growing videocassette market. Two popular Disney offerings by the Home Video Division are the animated feature, "Robin Hood," and the Limited Gold Edition of vintage cartoon shorts, which contributed to a Disney-record summer sale

has had good public recognition and acceptance, it was offered on 1,700 systems in 50 states and had signed 1.4 million subscribers by year end. The Company has anticipated operating losses as an investment in the future during this start-up phase of operations as amortization of programming costs and distribution expenses exceed subscriber revenues. An operating loss of $35 million was incurred in 1984 as compared to $28 million for the six-month period of operation in 1983. These losses are in line with current projections for break-even by mid to late 1985 when the projected average number of subscribers is expected to approximate two million.

The Company continued to record impressive growth in the home video market in 1984. World-wide revenues of $69 million in 1984 were 55% higher than in 1983, and featured successful distribution of Disney as well as non-Disney product, including the highly successful "Limited Gold Edition" series of seven cartoon short collections and the Disney feature film, "Splash." Revenues of $45 million in 1983 were 66% higher than 1982 revenues.

Operating income and margins for the segment have been adversely affected in 1983 and 1982 due to overall low film rentals and resulting write-downs of new releases. Operating income in 1984 does not include Unusual Charges related to motion picture and television properties (as discussed on page 30).

CHARACTER MERCHANDISING AND PUBLICATIONS

While the tale may be apocryphal, legend has it that product merchandising from films started as an industry in 1929 when Roy O. Disney, co-founder of the company, was approached in a New York hotel lobby by an entrepreneur who offered him $300 to use the image of Mickey Mouse on a pencil tablet.

In 1933, the Mickey Mouse wristwatch, licensed by Ingersoll, became an instant success. The first feature film in the industry to license products for merchandising was "Snow White and The Seven Dwarfs" in 1937. Products for young girls included clothing, jewelry, card games, tooth brushes and books.

Today the Consumer Products segment of Disney represents more than $100 million in annual revenues. We maintain more than 1,600 merchandise and publishing licenses that result in more than 8,000 different items. Over 85 million people purchase Disney-related products with an annual retail value that has been estimated at more than a billion dollars. The company has 29 offices worldwide devoted to product licensing and merchandising.

The whole field of licensing and royalties in characters has been growing at a phenomenal rate in the last few years and during 1984 the Disney organization moved in new directions to keep up with the pace.

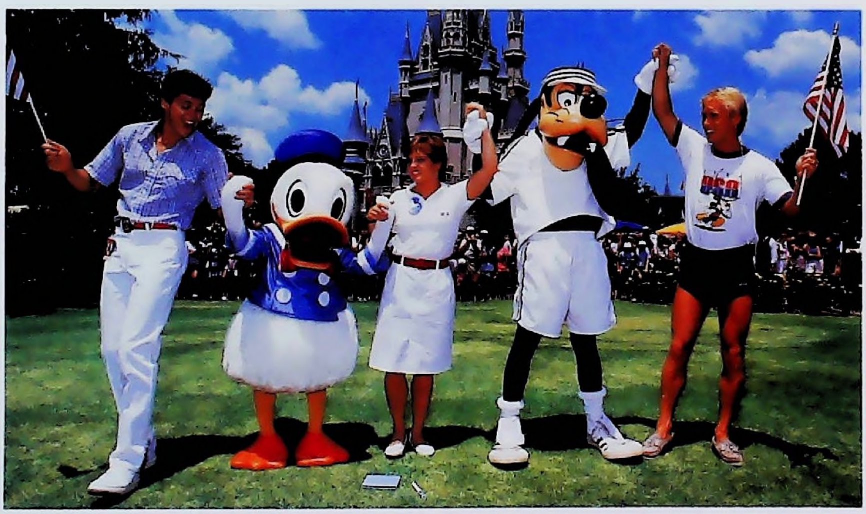
Walt Disney Productions and Hasbro Bradley, one of the nation's largest toy manufacturers, tantalized the volatile toy licensing marketplace last summer with the landmark announcement of a significant television production and merchandising spin-off alliance. The action will trigger Disney's first entry into an entirely new realm of business.

We jointly agreed to a multi-faceted television, merchandising and character licensing project based on original stories created by Disney. Scheduled for launching early in 1985, it will mark the first time Disney will have created television shows composed of entirely new animation and with a totally new cast of characters.

Hasbro and Disney will share licensing in the United States while Disney has exclusive rights overseas. Hasbro has licensed characters from Disney in the past.

Also especially significant in 1984 was the announcement of a complete line of Disney designer sportswear

Barton K. Boyd
Executive Vice President – Consumer Products and Merchandising



for women, produced by J G Hook. This trend-setting line of women's high-fashion apparel and accessories will be identified by the "Mickey & Co" label. It will be on display in 2,000 stores throughout the nation. It is expected to be a major new source of revenue for this division.

The company also signed a new, long-term commitment for Disney-themed ice shows with Irvin and Kenneth Feld Productions, producers of a variety of touring ice spectaculars and owners of the Ringling Bros. and Barnum & Bailey Circus. The new contract extends the ice shows through 1989 with an option to continue productions through 1992.

The unparalleled success of the first three Disney-themed ice extravaganzas encouraged the long-term commitment. Productions for the 1984-85 season are the new "Walt Disney's World on Ice," with the theme of Donald Duck's 50th birthday, and the continuing "Walt Disney's Magic Kingdom on Ice," which held its second year premiere at New York's Madison Square Garden in September.

The merchandising value continued to be strong for the standard Disney characters — Mickey, Minnie, Donald and Goofy. "Disney's Busy Poppin' Pals," by CBS Toys, became one of the best-selling items in the toy industry's infant category. Hasbro's "Mickey Mouse Talking Phone" is another best-seller.

Sport Goofy's role as a symbol of good sportsmanship grew, highlighted by personal appearances at sporting events and numerous tie-in promotions. Union Carbide's Eveready Battery division, Viewmaster International and R T French featured Sport Goofy in national premium promotions, sweepstakes, and other campaigns during the year.

J M Smucker and Best Foods heralded Donald Duck's 50th birthday with a special Donald clock-calculator-school ruler offered nationally, supported by 80,000 point of sale displays and advertisements reaching 35 million readers. Other

From plush toys to clothing to merchandise tie-ins at sporting events, Disney-related items are now purchased by more than 85 million people annually. Growing in popularity through his personal appearances as a symbol of good sportsmanship is Sport Goofy, appearing here with Donald Duck and athletes from the 1984 Summer Olympics. At top, examples of the J G Hook-designed Disney sportswear for women, appearing in 2,000 stores under the Mickey & Co label in 1985.

tie-in promotions were carried out by Revlon, Keyes Fibre, Dole, Coca-Cola and Citrus World.

Hardee's, a fast food service chain with 2,300 outlets, planned a five-week campaign tie-in with the showing of "Mickey's Christmas Carol" on television, supported by a $7.5 million advertising campaign. More than 15 million Disney plush toys were to be offered as premiums to customers over the holiday period.

New series of books based on traditional Disney characters, new volumes exploring the themes of Epcot Center, and products related to Donald Duck's 50th birthday highlighted the year in publications operations.

"Things To Do," introduced by World Books as a 24-volume series of activities and games for the backyard, the beach, and other locales, posted strong early success and will likely be extended to 36 volumes.

A new, 8-volume set published by Grolier, based on Epcot Center and containing such titles as "Future World of Energy," "Future World of Agriculture," and "Future World of Transportation," is aimed at the teenaged and adult market.

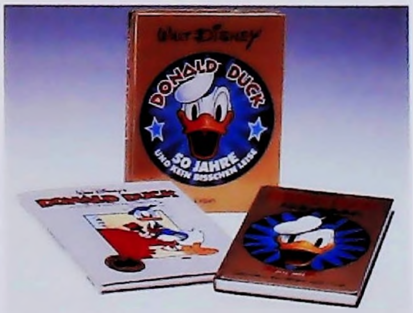
Sales of the "Fun to Learn Library," published in 1983 by Bantam Books, continued to be highly successful, reaching 13 million in 1984 from 5 million the previous year. This set, sold in supermarkets throughout the country, is expected to sell 4 million to 5 million yearly for the next five years.

H.P. Books published "Donald Duck — 50 Years of Happy Frustration," at $14.95 and an initial print of 50,000 sold immediately. Western Publishing issued "The Donald Duck Treasury," at $7.95 and advertised Donald's 50th birthday with displays in 10,000 retail stores in the country. Unipart Publishing of Germany published the 250-page hardcover, "Donald Duck," and Gutenberg House in Denmark published a Donald Duck magazine that is selling more than a million copies weekly.

For the new year, major publications are planned relating to "The Black Cauldron" and "Return to Oz." Western Publishing plans 27 different publications and other items tied in with the release of "Return to Oz" and 17 products related to "The Black Cauldron." Ballentine Books has scheduled a novelization of the Oz film and another volume on "The Art of Return to Oz."

Records and Music Publishing

Continuing the Gold record momentum of last year, Disney-produced records gained further industry recognition with the award of five certified Gold records, bringing the company's total to 31. Each Gold record represents a million sales for a



single record and a half million for an album.

For the past several years, Mickey Mouse and the rest of the favorite Disney characters have been delighting young audiences with upbeat, contemporary song albums. First came "Mickey Mouse Disco." It was followed by "Mousercise," Mickey's answer to the exercise fever. This year's edition was "Mickey Mouse Splashdance," an exciting new album featuring dance-along and sing-along songs.

Together, the three "Mickey" albums have sold more than 4 million copies and a special television direct response promotion is planned for "Splashdance" next year.

As in the past several years, George Lucas and Steven Spielberg titles, distributed by Disney, sold very well. Story-related products were released for retail and direct mail sale for "Gremlins" and "Indiana Jones and the Temple of Doom." To date, domestic sales of Lucas and Spielberg titles are about 21 million units.

Included were 12 million read-along book and record products.

New series of books based on traditional Disney characters and volumes exploring themes of Epcot Center were among highlights of publishing operations in the Consumer Products group during 1984. And it was another Gold Record year for Mickey Mouse's contemporary song albums and story-related products distributed by the music company. Items as varied as ceramics with seasonal themes and wooden toys are represented among the 8,000 different products marketed through merchandise and publishing licensees.

which were distributed through Hardee's fast food restaurants in a special "Gremlins" promotion.

Revenues increased for this business in 1984, and the momentum will continue in 1985 with important new product introductions planned that include story records based on "The Black Cauldron" and "Return to Oz."

EDUCATIONAL MEDIA

Disney's role in educational media broadened in scope during the year. New films, cassettes, filmstrips and other teaching aids explored such contemporary issues as child molestation and rape prevention, drugs and juvenile law.

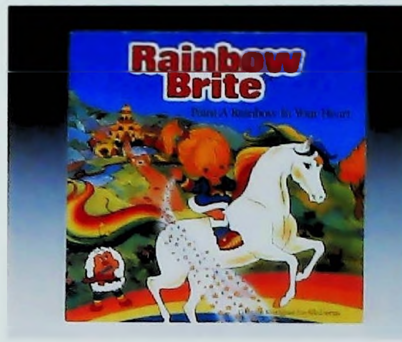
With the number of computers in elementary and high school use rising from 450,000 in 1983 to an anticipated one million by the end of 1985, Disney began to position itself in the marketplace with the release of three innovative, state-of-the-art computer software packages. They are: "Mickey's Space Adventure," "Winnie the Pooh in the Hundred Acre Wood," and "Donald Duck's Playground."

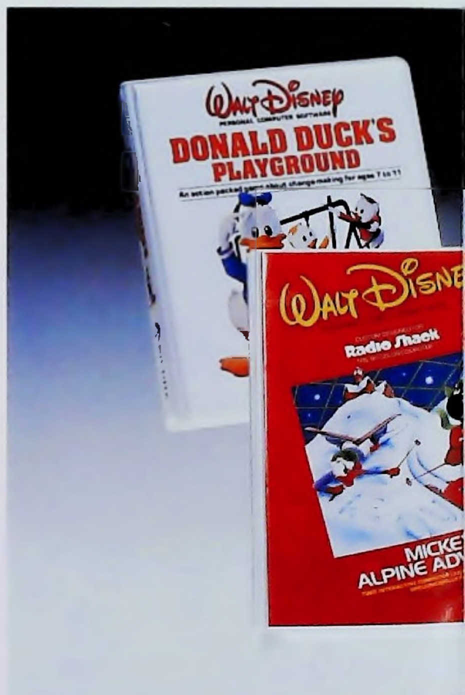
Disney has been prominent in the educational field for three decades. Our business in communications and computer technology represents the newest communications media. The programs we are producing and marketing through licensing agreements are quality software that combine learning and entertainment. We take full advantage of the visual power of the Disney characters and the interactive capabilities of microcomputers.

In all, 18 new films, also available in videocassette, were added to the Educational Media catalog. All were original, with the exception of "Mickey's Christmas Carol," produced by the Studio. Among the titles were seven new products, part of the Epcot Educational Media line, related to the new ideas and technologies displayed at Epcot Center's Future World.

Among the division's more popular new releases last year were "Booker," the powerful film biography of Booker T. Washington, "Donald's Fire Survival Plan," an updated version of the award-winning Donald Duck fire safety classic; and "Lights, Camera, Fractions," a blend of live-action and stop-action animation that introduces the concept of fractions.

Visits by teachers to the Epcot Teachers Center climbed to 30,000 in





CONSUMER PRODUCTS
(In thousands)

	1984	Change	1983	Change	1982
Revenues	$109,682	−1%	$110,697	+ 8%	$102,538
Operating income	53,863	−5%	56,882	+19%	47,832
Operating margin	49%		51%		47%

The character merchandising and publications division, which licenses the name Walt Disney, its characters and other properties, performed well in both its domestic and foreign markets despite declines in revenues and operating income. Revenues were down 7% from the prior year due, in part, to 1983 record-high licensing activities of all product, including "TRON." Disney character merchandise sold at Tokyo Disneyland remains extremely popular after one and one-half years of activity and has

1984 and are expected to reach 45,000 next year. Educators have the opportunity to learn about available Disney products in an exclusive setting. Four new classroom guides for teachers attending the center were produced, including publications on energy, communications, futuristic agriculture and technology.

Educational Media enlarged its role in the Consumer Products segment with innovative computer software packages positioned to take advantage of increased computer use in the nation's schools. Designed to combine learning and entertainment, the lineup of teaching aids includes packages of read-along stories with audio cassettes, and visually oriented games.

contributed to the overall five year increase in merchandise revenues of 43%.

The records and music publishing division posted the highest revenues and operating income in their history for the second consecutive year. Domestic retail sales of "Gremlins" records and tapes and significant growth in the direct marketing area contributed to the record earnings.

Foreign revenues for all divisions have been adversely affected by the strength of the U.S. dollar in relation to other currencies.

Operating income over the past five years has increased 29%. Operating margins have steadily risen over the same period and again approximate the 50% level.

Community Development

Community Development became a major new business segment in 1984 when Walt Disney Productions purchased the prestigious Arvida Corporation and shaped strategic new directions in property development and management.

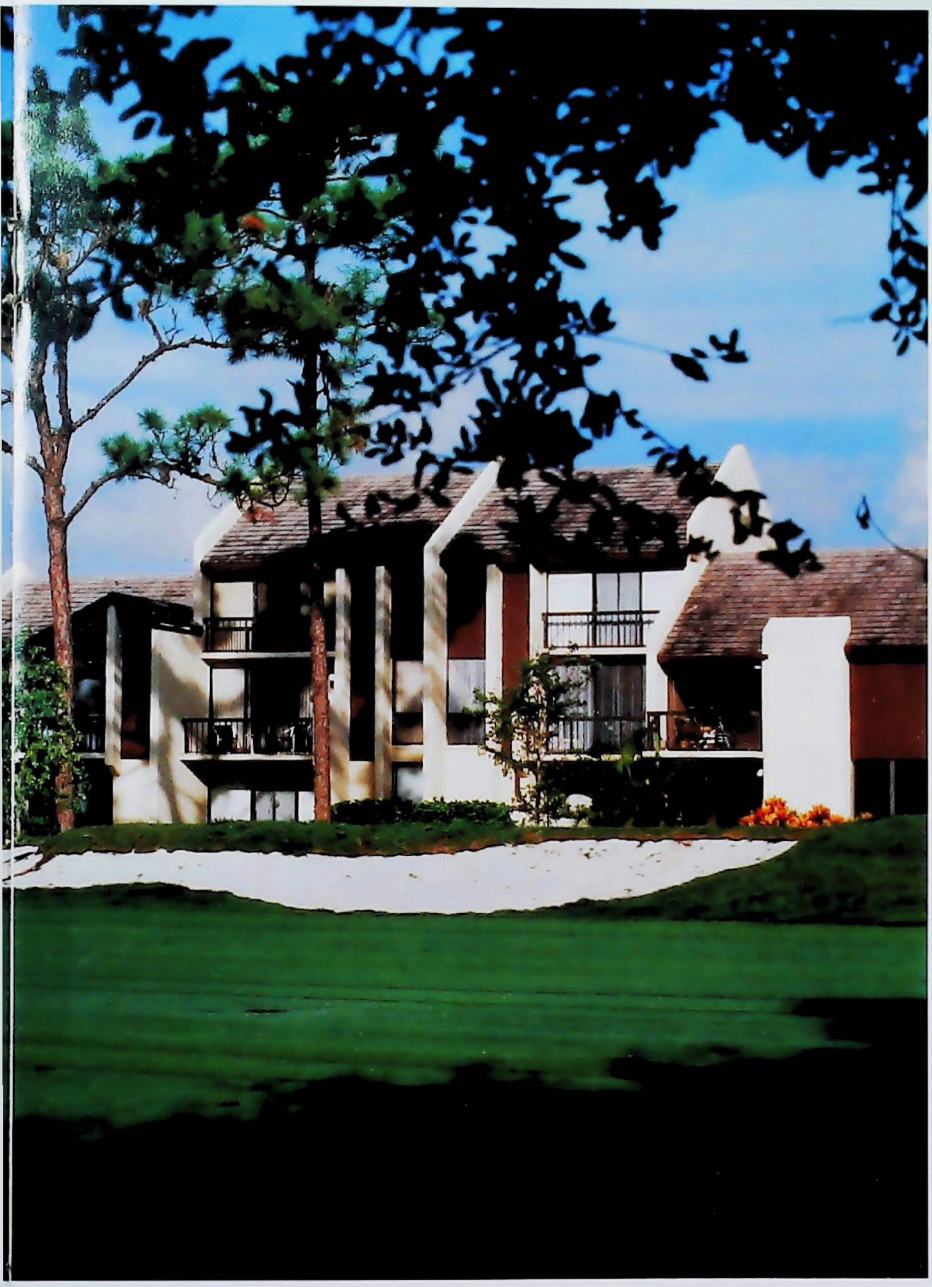
The focus began in June with the completion of the Arvida acquisition for an exchange of stock. Arvida, based in Boca Raton, Florida, is one of the nation's premier planned resort and community development companies. Its assets include more than 20,000 acres of prime landholdings in Florida, Georgia and California, a superb management team, led by Charles E. Cobb, Jr., and more than 20 fully planned resort, residential and business communities in development.

Immediately following the acquisition, Arvida and Disney real estate resources and management were integrated, and assets of both companies were brought under a single parent operation known as Arvida/Disney. In turn, Arvida/Disney quickly created a new business entity, the Disney Development Company, based at Walt Disney World.

Staffed by senior management from both Arvida and Disney realty units, the Disney Development Company has the mission of accelerating land and property developments at Walt Disney World and other Disney locations.

Early in 1985, the Disney Development Company will unveil its master plan for developing approximately 10,000 choice acres within the 28,000-acre Walt Disney World com-

Charles E. Cobb, Jr.
Chairman and Chief Executive Officer,
Arvida Corporation



plex. The plan will complement and enhance Future World/World Showcase at Epcot Center, the Magic Kingdom and other theme park activities, and incorporate many of the original ideas that Walt Disney conceived for the Florida property.

Expanses of grass and water are features of Boca West, Arvida's nationally known resort community in Boca Raton, Florida. The 1,400-acre planned community has four golf courses and one of the nation's largest tennis complexes set amid a broad range of housing products. The company's Boca Raton headquarters are in the six-story Arvida Financial Plaza.

The Disney Development Company's other key priorities in 1985 include a master plan for Studio property in Burbank, planning for the proposed Grand Floridian Hotel at Walt Disney World, and a master plan for utilizing access properties at Disneyland in California.

Meantime, through Arvida/Disney financial services, initial work has been accomplished on the formation of a mortgage company. With this new resource, dedicated financial planning and services can be provided to Arvida, the Disney Development Company, and to realty companies in Florida and other Sunbelt states. The mortgage company also will focus on developing better financing mechanisms for Walt Disney World hotels and other real estate assets.

Another Arvida/Disney priority is to assist Walt Disney Productions in the selection of a site for the proposed European Disneyland.

While the formation of new Arvida/Disney business units provide additional synergism among business segments, continued strong emphasis will be given to Arvida's own developments.

At Weston, Arvida's 10,000-acre new town being developed 15 miles west of Fort Lauderdale, the company is proceeding with initial construction of residences. Weston eventually is to grow to a balanced community with 20,000 units of housing and includes the EcuMed project, a 6-million-square-foot medical trade mart complex.

At Boca Raton, Arvida will begin Arvida Country Club, a 1,000-acre new community planned for 3,000 residential units, construct new corporate offices, and, with participation by Federated Department Stores, expand Town Center, a 155-acre shopping complex adjacent to the Arvida Financial Plaza.

At the same time, Arvida will continue developments in major planned communities located elsewhere.

Arvida was founded more than a quarter-century ago by the late industrialist Arthur Vining Davis, who coined the firm's name out of his own. Building on the strength of small, high-quality residential projects in south Florida, Arvida evolved from a regional business to a dominant force in the development of large-scale, thoroughly planned communities serving recreational, residential and business needs.

Since 1972, when fundamental management changes and directions were shaped, Arvida has built more than 10,000 homes and five million square feet of commercial and industrial facilities. Arvida properties range from luxury resort and vacation home developments to primary home communities, commercial centers and business complexes. Related

businesses include home building, commercial and industrial development planning, real estate brokerage, and resort and property management.

Besides Weston, Arvida's major Florida holdings include Boca West, a 1,400-acre resort and residential community, the Longboat Key Club, a 1,000-acre resort development near Sarasota, and Sawgrass, a 2,400-acre resort and recreational community near Jacksonville.

In Georgia, Arvida is developing three separate residential communities totaling more than 1,400 acres near Atlanta. In Southern California, Arvida is building Coto de Caza, a 6,000-home private community near Mission Viejo.

Following a philosophy that closely paralleled Walt Disney's concepts for theme park innovations, Arvida community developments have become synonymous with sound planning and design, distinctive resort and recreational facilities, and quality leisure lifestyles.

ARVIDA PLANNED COMMUNITIES

Arvida Executive Center Cited by professional and community groups for its design excellence, Arvida Executive Center is a 65-acre business community in Boca Raton. Prominent residents include IBM, Lynn Insurance Group, CRC Press, Glendale Federal Savings & Loan Association and fine restaurants.

Arvida Park of Commerce The 800-acre business community in Boca Raton features the Broken Sound Golf Club, a private 18-hole golf course and clubhouse, and office facilities. Several regional and national companies are represented, including STP, Siemens Corporation, Mitel, IBM, Sensormatic, and Burroughs.

Boca West A 1,400-acre resort community west of Boca Raton, Boca West features four championship golf courses, one of the country's largest tennis complexes, a multi-million dollar clubhouse and aquatics center, 100 acres of bass-stocked lakes, and miles of paths for jogging and bicycle riding. A broad range of housing is represented.

Chimney Lakes Set in 270 acres of forest near the Chattahoochee River north of Atlanta, Chimney Lakes is planned for 360 single-family detached homes on wooded lots.

Chimney Springs A recreation-oriented community of single-family homes north of Atlanta, Chimney Springs' 500 acres include community-owned parks, an eight-acre lake with an encircling biking and hiking trail, tennis courts and a swimming pool.

Cocoplum Located in Coral Gables near downtown Miami, Cocoplum fronts on Biscayne Bay. It is one of the most prestigious single-family home communities in south Florida. Along with plans for 360 custom-built homes, Cocoplum includes a 79-acre mangrove preserve and wildlife sanctuary, a marina, and four islands connected by bridges.

Coto de Caza Planned as the largest private community on the West Coast, this 5,000-acre development halfway between Los Angeles and San Diego will be home for more than 6,000 Southern California families. Site of the modern pentathlon during the 1984 Summer Olympics, the community features equestrian and hunting facilities, the Vic Braden Tennis College, and Coto Research Center.

Country Walk A 580-acre community in southwest Miami, Country Walk features single-family and patio homes with rustic architecture and themes. Planned for 1,900 homes, the community includes a 10-acre lake, a variety of recreational amenities and convenient commercial facilities.

Estancia Located near Boca Raton, this 366-home community for single families is developed around natural landscap-

Arvida's major resort community on Florida's West Coast, the 1,000-acre Longboat Key Club is flanked by the Gulf of Mexico and Sarasota Bay. The complex offers 36 holes of golf, tennis, and has one of the state's largest marinas. A variety of primary and vacation homes are available and guests can enjoy luxury accommodations at The Inn on the Beach, above.

ing, preserves and planted berms. The community features controlled access and security patrols to ensure residents' privacy. Recreational activities are available in a supervised park.

Lakes of the Meadow This 630-acre planned residential community is in southwest Dade County, 18 miles from Miami. Up to 2,700 homes are planned for all types of families. The community has a large recreation center and 70 acres of lakes.

Longboat Key Club Flanked by the Gulf of Mexico and Sarasota Bay, this resort community on Florida's West Coast features luxury resort accommodations at The Inn on the Beach, and has a variety of primary and vacation homes. The resort has two 18-hole golf courses, a major tennis complex and one of the state's largest marinas.

Millpond This community of 206 single-family homes in Boca Raton is one of south Florida's finest family-oriented developments. Designed for young, active families, Millpond has a variety of recreational facilities, including 13 lakes for canoeing and fishing, and a gazebo for concerts.

Paseos A forested and landscaped residential community in Boca Raton, Paseos has 123 single-family homes with varying architecture in Spanish styles. Planned for active families, the community has lakes, tennis courts, jogging and nature trails, parks and playgrounds.

Orange Tree Arvida's initial development in central Florida, Orange Tree is located near Walt Disney World. The 320-acre community of single-family and patio homes features an 18-hole golf course and other recreation.

Sabal Chase Arvida's first planned community in Miami, Sabal Chase offers an active lifestyle for 750 families with townhouses, village homes and single-family residences. Recreation includes swimming pools, parks, tennis courts, playgrounds and tot lots.

Sawgrass A resort community of 2,400 acres, Sawgrass fronts the Atlantic Ocean south of Jacksonville. Seasonal and permanent residents can enjoy a variety of recreational activity, including exceptional golf, tennis, club and beach facilities. Sawgrass is home to the Tournament Players Championship golf event.

The Addison Located on the last stretch of beach in Boca Raton, The Addison features 180 luxury condominium apartments in twin, 15-story towers, with views of the Atlantic, the Intracoastal Waterway and Boca Raton. The complex is named for the renowned Florida architect, Addison Mizner.

The Crossings A sister community to Sabal Chase in Miami, The Crossings is designed to appeal to young families, couples and singles seeking convenience to shopping, educational, cultural and recreational centers. As a "village within a city," the 1,329 home community has its own junior high school and a 35 acre park.

The Moors Located in Miami Lakes, this

COMMUNITY DEVELOPMENT
(In thousands)

	1984
Revenues	$204,384
Operating income	42,226
Operating margin	21%

On June 6, 1984, the Company acquired Arvida Corporation in a merger transaction accounted for on a pooling of interests basis. Operating results have been included in fiscal 1984 from January 1, 1984 through September 30, 1984 and are reported in this new business segment. Community development revenues include residential housing sales of $53 million, land and property sales of $90 million and resorts and other operations of $61 million.

Operating income is significantly influenced by the nature of major land and property transactions as well as the timing of the closing and the qualifications for revenue recognition of such transactions. In 1984, land and property operating results were favorably influenced by sales of several commercial sites in the Boca Raton area of Florida and joint venture interests in properties in Florida and California. Resorts and other operations include a $9 million gain from the sale of Arvida's mortgage subsidiary.

290-acre residential community features Mediterranean-style architecture and is designed for 2,400 homes. Varied housing products and styles include mid-rise condominiums. A recreation center is also planned.

Timbercreek A 180-acre community of single-family residences, this Boca Raton development is conveniently located near major transportation routes, commercial centers and schools. Playgrounds, walkways, bicycle paths and lakes are designed to serve recreational needs of 311 families.

Town Center Located near the Arvida Financial Plaza in Boca Raton, Town Center is a 155-acre shopping services complex, including a regional shopping mall with more than a million square feet of space.

Town Place This Boca Raton residential community of 205 acres includes the Town Place Swim & Racquet Club. Designed for young professionals and recreation-oriented families, the community is planned for 1,100 residences.

Weston Arvida's largest planned community, Weston is a 10,000-acre new town west of Fort Lauderdale. It is planned for more than 20,000 homes with attendant commercial, industrial, recreational and institutional land uses. Within 25 years, 60,000 residents are expected.

Willow Springs Centered around a golf course, this community of 683 homes on 645 acres is located north of Atlanta. Popular with families, the community has a variety of recreational amenities in a setting of rolling wooded terrain.

Arvida's planned resort community of Sawgrass, on the Atlantic Ocean south of Jacksonville, represents a well-rounded recreational lifestyle for seasonal and permanent residents. Housing includes ocean-front studios and fairway villas. Sawgrass has 54 holes of golf, including the PGA Tour's Tournament Players Club, on its 2,400 acres. Arvida manages the Boca Beach Club, far left, as part of the Boca Raton Hotel & Club.

FINANCIAL REVIEW
(In thousands, except per share data)

OPERATIONS

Revenues and Earnings
Revenues for the Company increased by 27% in 1984 to almost $1.7 billion. Net income totaled $97.8 million in 1984, an increase of 5% from the $93.2 million earned in 1983. Earnings per share increased to $2.73, computed on a higher average number of shares outstanding, compared to $2.70 in the previous year.

	1984	Change	1983	Change	1982
Revenues	$1,655,977	+27%	$1,307,357	+27%	$1,030,250
Operating income	291,033	+32%	220,375	+10%	200,116
Net income	97,844	+ 5%	93,160	− 7%	100,093
Per share	$2.73		$2.70		$3.01

A turnaround in the filmed entertainment segment together with the inclusion of the new community development segment provided higher revenues and operating income in 1984. The increase in operating income was partially offset by higher corporate expenses and the impact of unusual charges and a change in accounting. Operating results and management's financial analysis of operations are discussed by business segment in the forepart of this report.

Before unusual charges and a change in accounting (discussed later), net income for 1984 increased 16% to $107.8 million, or $3.01 per share. Due to the unusual charges, the Company reported a loss of $64.0 million in the fourth quarter. Before the unusual charges, net income for the quarter was $22.1 million, or $.65 per share, compared to $24.5 million, or $.70 per share a year ago.

Corporate Expenses (Income)

	1984	Change	1983	Change	1982
General and administrative	$59,570	+68%	$35,554	+15%	$30,957
Percent of revenues	4%		3%		3%

The Company incurred almost $20 million in nonrecurring general and administrative expenses in 1984 consisting primarily of costs associated with the Arvida acquisition, a termination fee and other expenses associated with the terminated acquisition of Gibson Greetings, Inc. and costs associated with changes in executive management. On June 5, 1984, the Company entered into an agreement to acquire Gibson Greetings, Inc. This agreement was terminated on August 17, 1984 and the Company became obligated to pay Gibson $7.5 million plus certain expenses.

In addition, normal increases were experienced in labor, materials and outside services, which were partially offset by the recognition of a $5 million pretax capital gain from the exchange of a parcel of land adjacent to Disneyland.

	1984	Change	1983	Change	1982
Design projects abandoned	$7,032	−4%	$7,295	+42%	$5,147

At the close of each fiscal quarter, management regularly evaluates projects in the concept and design stages which have been in progress for varying periods of time. Those which are determined to have no future use are abandoned and charged to expense. In connection with the separate review and evaluation for the fiscal year 1984 with new management, additional abandonments were identified and recorded based upon newly defined corporate strategies (see Unusual Charges below).

	1984	Change	1983	Change	1982
Interest expense (income) − net	$41,738	+197%	$14,066	+195%	$(14,781)

The Company incurred interest costs of $75.8 million in 1984 resulting from indebtedness averaging $625 million at an average interest rate of 12%. Of that amount, $32.1 million was capitalized to qualifying assets. Total interest costs incurred in 1983 and 1982 were $43.3 and $24.4 million, respectively, of which $25.4 and $24.4 million were capitalized. Interest income included above was $2.0, $3.8 and $14.8 in 1984, 1983 and 1982, respectively. Management anticipates that the Company will continue to incur substantial interest costs for

REVENUES AND OPERATING INCOME
(In Millions of Dollars)

Consolidated Statement of Income
(In thousands, except per share data)

Year ended September 30	1984	1983	1982
Revenues			
Entertainment and recreation	$1,097,359	$1,031,202	$ 725,610
Filmed entertainment	244,552	165,458	202,102
Community development	204,384		
Consumer products	109,682	110,697	102,538
	1,655,977	1,307,357	1,030,250
Costs and Expenses			
Entertainment and recreation	904,664	834,324	592,965
Filmed entertainment	242,303	198,843	182,463
Community development	162,158		
Consumer products	55,819	53,815	54,706
	1,364,944	1,086,982	830,134
Income (Loss) Before Corporate Expenses and Unusual Charges			
Entertainment and recreation	192,695	196,878	132,645
Filmed entertainment	2,249	(33,385)	19,639
Community development	42,226		
Consumer products	53,863	56,882	47,832
	291,033	220,375	200,116
Corporate Expenses (Income)			
General and administrative	59,570	35,554	30,957
Design projects abandoned	7,032	7,295	5,147
Interest expense (income) — net	41,738	14,066	(14,781)
	108,340	56,915	21,323
Income Before Unusual Charges, Taxes on Income and Accounting Change	182,693	163,460	178,793
Unusual charges	165,960		
Income Before Taxes on Income and Accounting Change	16,733	163,460	178,793
Taxes on income (benefit)	(5,000)	70,300	78,700
Income Before Accounting Change	21,733	93,160	100,093
Cumulative effect of change in accounting for investment tax credits	76,111		
Net Income	$ 97,844	$ 93,160	$ 100,093
Earnings per Share			
Income before accounting change	$0.61	$2.70	$3.01
Cumulative effect of change in accounting	2.12		
	$2.73	$2.70	$3.01
Average number of common and common equivalent shares outstanding	35,849	34,481	33,225

the next several years while maintaining a significant level of debt. The amount of future interest to be capitalized may be less if the qualifying capital expenditures decrease in relation to total indebtedness.

Unusual Charges
In conjunction with an analysis and evaluation by new management of certain Company assets and of various options for growth in relation to newly defined corporate strategies and emerging business opportunities, the Company recorded unusual charges of approximately $166 million in the fourth quarter of fiscal 1984. Based on management's assessment of the redirection of the Company's filmed entertainment business, a provision of $112 million was made for adjusting the carrying values of several motion picture and television properties in release, in production and under development. As a result of management's decision to limit to pre-Epcot Center levels further annual investments in the existing theme parks, various design and development projects were determined to have no future use and were written down by $40 million. Costs of about $14 million resulting from other restructuring measures were also included in the unusual charges.

Taxes on Income (Benefit)

	1984	Change	1983	Change	1982
Taxes on income (benefit)	$(5,000)	−107%	$70,300	−11%	$78,700
Effective income tax rate	(30%)		43%		44%

The Company has realized a tax benefit in 1984 due principally to the impact of the unusual charges provided for in the fourth quarter and available tax credits. The effective income tax rate before the unusual charges was 41%, an improvement from 1983 attributable to tax benefits realizable from the Arvida operations. Generally, the difference between the U.S. federal income tax rate of 46% and the Company's effective income tax rate is primarily due to benefits received from investment tax credits. The Company recorded estimated claims for refundable income taxes of $60, $70 and $41 million at fiscal year ends 1984, 1983, and 1982, respectively; these refunds primarily resulted from investment tax credits and excess of tax over book depreciation relating to Epcot Center.

Change in Accounting
To conform to predominant industry practice, the Company in the fourth quarter of 1984 changed its accounting for investment tax credits to the flow-through method from the deferral method. The flow-through method reduces income taxes by the full amount of the allowable investment tax credits in the year the credits arise. The Company was required to record the change effective October 1, 1983; it resulted in the realization of $76 million of previously deferred tax credits as an increase to net income in the first fiscal quarter of 1984.

FINANCIAL POSITION

The Balance Sheet
The Company has changed its balance sheet to a nonclassified presentation, which does not distinguish between current and noncurrent assets and liabilities. Management believes that a nonclassified balance sheet provides a more meaningful presentation of real estate inventories, film production costs and entertainment attractions consistent with the business cycles of the Company's operations.

The Company's total assets have more than doubled over the last five years to $2.7 billion, representing an 18% average annual growth rate.

	1984	Change	1983	Change	1982
Total assets	$2,739,443	+15%	$2,381,195	+13%	$2,102,816

The increase in total assets during the past five years reflects the investment in Epcot Center, which opened September, 1982, and the acquisition of Arvida Corporation in fiscal 1984. Arvida's principal assets are real estate inventories, as set forth on the balance sheet, consisting of undeveloped land, community development work in progress and completed projects which have not yet been sold.

Borrowings have increased during 1984 due primarily to the $215 million of Arvida debt assumed upon the acquisition of Arvida and the $328 million for the repurchase of the Company's common stock from Reliance Insurance Company.

	1984	Change	1983	Change	1982
Borrowings	$861,909	+144%	$352,575	+12%	$315,000
Percent of total assets	31%		15%		15%

The Company has available through May, 1987 an unsecured revolving line of credit of up to $1.3 billion for general

TOTAL ASSETS, STOCKHOLDERS EQUITY AND BORROWINGS
(In Millions of Dollars)

Consolidated Balance Sheet
(In thousands)

September 30	1984	1983*
Assets		
Cash ($8,800 restricted in 1984)	$ 35,346	$ 18,055
Accounts and notes receivable, net of allowances	172,762	104,746
Taxes on income refundable	60,000	70,000
Merchandise inventories	83,467	77,945
Film production costs	102,462	127,010
Real estate inventories	229,424	
Entertainment attractions and other property, at cost		
Attractions, buildings and equipment	2,413,985	2,251,297
Less accumulated depreciation	(600,156)	(504,365)
	1,813,829	1,746,932
Construction and design projects in progress	94,710	108,190
Land	28,807	16,687
	1,937,346	1,871,809
Other assets	118,636	111,630
	$2,739,443	$2,381,195
Liabilities and Stockholders Equity		
Accounts payable, payroll and other accrued liabilities	$ 239,992	$ 182,709
Taxes on income payable	24,145	13,982
Borrowings	861,909	352,575
Unearned deposits and advances	178,907	109,556
Deferred taxes on income	279,005	321,845
Commitments and contingencies		
Stockholders equity		
Preferred shares, no par		
Authorized — 5,000 shares, none issued		
Common shares, no par		
Authorized — 75,000 shares		
Issued and outstanding — 33,729 and 34,509 shares	359,988	661,934
Retained earnings	795,497	738,594
	1,155,485	1,400,528
	$2,739,443	$2,381,195

*Restated to conform to nonclassified presentation

corporate purposes. The line is available to support commercial paper borrowings and intermediate notes. As of September 30, 1984, the Company had outstanding $250 million under the line and $200 million of commercial paper.

The Company, through its Arvida subsidiary, has a real estate term loan of $132 million due in varying amounts through December, 1991 and a revolving line of credit of up to $50 million, of which $26 million was outstanding at September 30, 1984. The Company also has a term loan denominated in Japanese yen, due in equal amounts through February, 1993, of which $53 million was outstanding at September 30, 1984.

At September 30, 1984, the Company had outstanding two Eurodollar offerings, $100 million at 15.75% due in September, 1986 and $75 million at 12.50% due in March, 1989. On October 17, 1984, the Company called for the redemption of the $100 million 15.75% Eurodollar notes as of November 30, 1984.

The ratio of debt to total capitalization (stockholders equity plus borrowings) was 43% at September 30, 1984 compared to 20% at September 30, 1983 and 1982.

	1984	Change	1983	Change	1982
Stockholders equity	$1,155,485	−17%	$1,400,528	+10%	$1,274,784
Per share	$34.26		$40.58	+ 6%	$38.22
Percent of total assets	42%		59%		61%

The decrease in stockholders equity is attributable to the repurchase of 4.2 million common shares of the Company's stock from Reliance in June, 1984 for a total cost of $328 million. Also in June, the Company exchanged 3.3 million of its common shares for all of the outstanding shares of Arvida, which had a book value at January 1, 1984, the effective date of the acquisition, of $21.8 million.

Return on average stockholders equity was 7.7% in 1984.

The Company announced subsequent to year end that the Board of Directors authorized a stock repurchase program under which the Company may purchase, from time to time, up to 3.5 million shares of the Company's outstanding common stock.

Commitments and Contingencies

The Company has pension plans covering substantially all of its domestic employees not covered by union or industry pension plans. The plans are funded by Company and, where applicable, employee payments to trusts administered by several banks. Net assets available for benefits as of the date of the latest actuarial valuation were $73 million. The actuarial present value of accumulated plan benefits, using assumed rates of return ranging from 9½% to 12%, was $72 million.

The Company is a defendant in various routine litigation incident to the conduct of its business, including actions asserting claims under federal anti-trust laws regarding motion picture distributors. In addition, a number of lawsuits have been filed during 1984 alleging, among other things, breaches of fiduciary duties by members of the Company's Board of Directors in connection with the acquisition of Arvida and the repurchase of its stock from Reliance; plaintiffs are seeking, among other things, rescission of the two transactions. In the opinion of management and counsel, the Company will not suffer any material monetary liability by reason thereof.

CHANGES IN FINANCIAL POSITION

Cash Provided by Operations

One of the most important goals of management is the effective utilization of cash generated from the Company's operating businesses. Cash provided by operations has increased by 126% over the last five years and by 23% to $414 million in 1984.

	1984	Change	1983	Change	1982
Cash provided by operations	$414,036	+23%	$337,356	+23%	$274,782

Cash provided by operations was $316.2 million greater than reported net income of $97.8 million. This difference was principally due to (i) depreciation, amortization, unusual charges and other expenses charged to income which did not require current cash outlays, that were partially offset by the change in accounting for investment tax credits which did not provide cash in the current fiscal year and (ii) income tax refunds received in 1984 relating to prior years.

Cash requirements for dividends and investing activities exceeded cash provided by operations in 1984 by $309.2 million ($147.3 million — 1983) due principally to the repurchase of common stock from Reliance. This deficiency in cash from internal sources, as well as reductions in existing borrowings, was financed primarily by borrowings under the Company's unsecured revolving line of credit and the issuance of commercial paper.

PRINCIPAL SOURCES AND USES OF CASH
(In Millions of Dollars)

Consolidated Statement of Changes in Financial Position

(in thousands)

Year ended September 30	1984	1983	1982
*Cash provided by operations before taxes on income**	$ 364,024	$ 308,369	$ 309,431
Taxes received (paid) on income — net	50,012	28,987	(34,649)
Cash provided by operations	414,036	337,356	274,782
Cash dividends	40,941	41,100	39,742
	373,095	296,256	235,040
Investing activities			
Common stock repurchase	327,679		
Entertainment attractions and other property, net of related payables	194,142	333,738	614,416
Film production and programming costs	127,595	83,750	52,295
Funding of pension program restructuring	24,338		
Rights to the Walt Disney name		(3,640)	40,000
Epcot Center and The Disney Channel preopening and start-up costs		18,253	19,170
Other	8,542	11,406	26,881
	682,296	443,507	752,762
	(309,201)	(147,251)	(517,722)
Financing activities			
Borrowings	421,119	137,500	205,000
Reduction of borrowings	(126,593)	(99,925)	
Participation fees, net of related receivables	6,892	11,169	23,867
Common stock offering		70,883	
Common stock issued (returned) to acquire rights to the Walt Disney name		(3,640)	46,200
Other	11,835	35,667	2,030
	313,253	151,654	277,097
Increase (decrease) in cash	4,052	4,403	(240,625)
Cash, beginning of year (including $13,239 for Arvida in 1984)	31,294	13,652	254,277
Cash, end of year	$ 35,346	$ 18,055	$ 13,652

*The difference between income before taxes on income and accounting change as shown on the Consolidated Statement of Income and cash provided by operations before taxes on income is explained as follows:

	1984	1983	1982
Income before taxes on income and accounting change	$ 16,733	$ 163,460	$ 178,793
Charges to income not requiring cash outlays:			
Depreciation	106,607	90,184	41,917
Amortization of film production and programming costs	54,134	65,575	64,868
Unusual charges	152,760		
Other	13,860	15,526	9,950
Changes in:			
Accounts and notes receivable	(15,507)	(25,863)	1,077
Merchandise inventories	(2,774)	(11,228)	(6,944)
Real estate inventories	6,465		
Accounts payable, payroll and other accrued liabilities	30,925	13,294	15,178
Other	821	(2,579)	4,592
	347,291	144,909	130,638
Cash provided by operations before taxes on income	$ 364,024	$ 308,369	$ 309,431

Dividends

It is the Company's policy to consider periodic dividend increases to its stockholders consistent with earnings growth and its need for funds to support future growth. Total cash dividends in 1984 represent 42% of net income for the year, down from 44% a year ago. At its current annual rate of $1.20 per share, cash dividends have grown annually by 21% over the last five years.

	1984	Change	1983	Change	1982
Cash dividends	$40,941	—	$41,100	+3%	$39,742
Percent of net income	42%		44%		40%
Per share	$1.20		$1.20		$1.20

Investing Activities

The most significant investing activity in 1984 was the $328 million repurchase on June 11, 1984 of 4.2 million shares of Disney common stock from Reliance for $70.83 per share and estimated out-of-pocket expenses incurred by Reliance in connection with its actual and contemplated purchases of Disney shares relating to its proposed tender offer.

The Company continues to invest in the future through its capital improvements program. Over the past five years, the Company has invested over $1.6 billion in entertainment attractions and other property and almost $400 million in film production and programming for a total of more than $2.0 billion. These investments are intended to expand services and operating capability in the Company's entertainment and recreation businesses and to increase the capacity to expand its filmed entertainment businesses. The consumer product businesses have and will continue to benefit from this expansion of product.

In fiscal 1984, expenditures continued on several projects at Disneyland and Walt Disney World, including the Moroccan and Seas pavilions at Epcot Center. Additions to film production and programming include production activity on "The Black Cauldron" and other live-action features, as well as a variety of original programming for The Disney Channel.

	1984	Change	1983	Change	1982
Additions to entertainment attractions and other property	$182,051	−37%	$291,202	−55%	$648,765
Additions to film production and programming costs	127,936	+51%	84,518	+62%	52,295

The Company currently anticipates that expenditures during fiscal 1985 will approximate $170 million for entertainment attractions and other property, $115 million for theatrical and television production and $35 million in programming for The Disney Channel.

Management reviews the Company's capital program at least quarterly and revises the anticipated capital additions for the fiscal year, as appropriate. In addition, some interest costs will be capitalized, the amounts being dependent upon the extent of borrowings, the associated rates of interest incurred, and the amount of qualifying asset costs incurred during the year.

Financing Activities

The Company has developed financing strategies and various financing arrangements to cover projected financing needs over the next two to three years. These strategies give the Company the flexibility it needs during a period of major investing activities and interest rate fluctuations. The Company has received credit ratings of A-1 and P-1 for its commercial paper from two of the major rating agencies.

As mentioned earlier, the Company's cash requirements exceeded cash provided by operations by $309.2 million and $147.3 million in 1984 and 1983, respectively. The Company financed these shortfalls at an average cost of new borrowings of 12% in 1984, up from 10% in 1983.

In March, 1984, the Company negotiated a new credit agreement with Bank of America and a group of 15 other banks, raising the total line of credit from $400 million to $1.3 billion. The proceeds of the borrowings may be used by the Company to back commercial paper borrowings and intermediate notes, for general corporate purposes or to make acquisitions. In May, 1987, any amounts outstanding under this revolving line may be converted into a four-year term loan. The Company is required to meet certain financial covenants, including net worth and capitalization ratio requirements.

In September, 1984, the Company authorized the issuance of 12.50% notes relative to a new Eurodollar offering totalling $150 million. The proceeds from this offering were received on October 2, 1984. The notes will mature on October 1, 1987 and are not redeemable prior to maturity. Also subsequent to year end, the Company replaced the $250 million outstanding under the line with privately-placed commercial paper borrowings at lower interest rates.

NET INCOME AND CASH DIVIDENDS PER SHARE

Inflation and Changing Prices
In recognition of the need to provide readers of financial statements with information to assist them in assessing the impact of inflation, the Financial Accounting Standards Board requires supplementary income computations.

By adjusting the historical cost financial information for changes that have occurred in the general purchasing power of the dollar (referred to as the constant dollar method, which is measured by the Consumer Price Index for all Urban Consumers), the Company's net income is significantly reduced from net income reported in the primary financial statements due to additional theoretical depreciation which has been adjusted for inflation. However, the Company does not believe that this hypothetical calculation has much relevance to its operations. The Company believes that cash provided by operations adjusted for changing prices provides a more meaningful insight into the impact of inflation because it excludes non-cash charges such as depreciation. Cash provided by operations has increased at an annual average rate of 13% when expressed in average 1984 dollars, compared to an annual rate of 21% as reflected in the primary financial statements.

Elsewhere in this report, the Company discusses its continuing program of investing in the future through its capital improvements program, which is intended to maintain and/or increase its productive capability. However, the Company is not confronted with a problem of replacing very old and worn out capital assets as a result of carefully planned and comprehensive refurbishing programs. When adjusted for the effects of changing prices, the Company has invested almost $2.2 billion in productive assets over the last five years compared to approximately $2.0 billion as reflected in the primary financial statements. To the extent that these expenditures are replacing existing assets, it is presumed that the costs in 1984 dollars are significantly higher than the costs of the original assets.

Foreign Currency Translation
The Company may realize a gain or loss on foreign currency transactions that reflects a change in rates of exchange between the time revenues are earned and the time they are converted to U.S. dollars. As the U.S. dollar strengthens in relation to a foreign currency, the foreign monies have less value, and conversely, when the dollar weakens the foreign monies have more value, when converted to the dollar. Such transaction gains and losses are included in income and are not material. In translating assets and liabilities that are recorded or denominated in currencies other than the U.S. dollar and are not part of a hedging arrangement, the resulting gains or losses are also included in income. Such gains or losses are not material due to the Company's relatively low foreign investment in inventories and property, plant and equipment.

The Company has hedged long term borrowings involving Japanese yen by designating the royalty revenues from Tokyo Disneyland to service interest and principal payments for such indebtedness, thus offsetting the effects of fluctuations in the exchange rate.

Foreign currency fluctuations from year-to-year can have a significant impact on the Company's earnings. The magnitude of currency changes have been significant during the past year as the U.S. dollar has strengthened against virtually all foreign currencies. Had currency rates remained constant year-to-year, it is estimated that revenues would have been over $23 million greater in 1984.

Stock Transfer Agent
Walt Disney Productions

Registrar
First Interstate Bank of California, Los Angeles

Stock Exchanges
The Common Stock of the Company is listed for trading on the New York, Pacific and Swiss Stock Exchanges. The Euro Bond notes of the Company are listed on The Stock Exchange in London.

Independent Accountants
Price Waterhouse, West Los Angeles

Annual Meeting of Stockholders
Wednesday, February 6, 1985

Other Information
A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to Shareholder Services, Walt Disney Productions, P.O. Box 10099, Burbank, California 91510-0099.

Walt Disney Productions makes available to its stockholders a Dividend Reinvestment Plan. Those wishing a pamphlet about the plan should write to Shareholder Services, Walt Disney Productions, P.O. Box 10099, Burbank, California 91510-0099.

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

The consolidated financial statements of Walt Disney Productions and Subsidiaries have been included on the following pages of this Annual Report:

	Pages
Consolidated Statement of Income	29
Consolidated Balance Sheet	31
Consolidated Statement of Changes in Financial Position	33
Notes to Consolidated Financial Statements	37-42

Additional information, although not a required part of the basic consolidated financial statements, may be read in conjunction with the consolidated financial statements and appears in the following supplemental section of this Annual Report:

Supplementary Information Regarding Inflation and Changing Prices	43
Quarterly Financial Summary	45
Selected Financial Data	46
Other Financial Data	47

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders
of Walt Disney Productions

In our opinion, the consolidated financial statements listed in the index and appearing on pages 29, 31, 33 and 37 through 42, present fairly the financial position of Walt Disney Productions and its subsidiaries at September 30, 1984 and 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1984, in conformity with generally accepted accounting principles consistently applied after restatement for the change, with which we concur, in the presentation of the balance sheet as described in Note 1 and except for the change, with which we concur, in the method of accounting for investment tax credits as described in Note 4 to the consolidated financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

West Los Angeles, California
November 27, 1984

Notes to Consolidated Financial Statements

(To be read in conjunction with the consolidated financial statements on pages 29, 31 and 33)

1 Description of the Business and Summary of Significant Accounting Policies

Walt Disney Productions and its subsidiaries (the Company) is a diversified international company engaged in family entertainment and community development with operations in four business segments; financial information regarding business segments appears on the Consolidated Statement of Income and in Note 11.

Entertainment and Recreation
The Company operates the Disneyland amusement theme park in California and the Walt Disney World destination resort in Florida. In addition to an amusement theme park, the Magic Kingdom, and Epcot Center, the Walt Disney World complex includes three hotels, camping, golfing and other recreational facilities, a shopping village, a conference center and other lodging accommodations. The Company receives royalties on revenues generated by the Tokyo Disneyland amusement theme park in Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation.

Filmed Entertainment
The Company produces motion pictures for the theatrical, television and home video markets. The Company distributes its filmed product through its own distribution and marketing companies in the United States and through foreign subsidiaries in certain countries and other distribution companies throughout the rest of the world. The Company provides programming for, and operates, The Disney Channel, a pay television programming service.

Community Development
Through its new wholly owned subsidiary, Arvida Corporation (Note 2), the Company develops comprehensively planned, distinctive resort and primary home communities. The Company also develops commercial and industrial properties within or near many of its planned communities. Through various subsidiaries, the Company provides general real estate brokerage and resort and property management services.

Consumer Products
The Company licenses the name Walt Disney, its characters, its literary properties and its songs and music to various manufacturers, retailers, printers and publishers. The Company also produces and distributes phonograph records, 16mm prints of product developed on educational subjects, computer software and a broad range of teaching aids. These activities are conducted through the character merchandising and publications, records and music publishing, and educational media divisions and subsidiaries of the Company.

The following summary of the Company's significant accounting policies is presented as an integral part of the consolidated financial statements.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries, all wholly owned.

The Consolidated Balance Sheet for fiscal 1983 has been restated to conform to a nonclassified presentation adopted in fiscal 1984, which does not distinguish between current and noncurrent assets and liabilities. The Company believes that a nonclassified balance sheet provides a more meaningful presentation for real estate inventories, film production costs and entertainment attractions consistent with the business cycles of the Company's operations. In addition, this conforms with the Company's presentation of changes in cash rather than working capital as shown in the Consolidated Statement of Changes in Financial Position.

Revenue Recognition
Generally, revenues are recorded when the earnings process is substantially complete and goods have been delivered or services performed. Revenues from participant/sponsors at the theme parks and Epcot Center are recorded over the period of the applicable agreements commencing with the opening of the attraction. Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited domestically and when revenues are reported from foreign distributors; revenues from television licensing agreements are generally recorded when the film is available to the licensee and certain other conditions are met. Profit is recognized in full on sales of real estate when collectibility of the sales price is reasonably assured and the earnings process is virtually complete; if the sale does not meet requirements for recognition, profit is deferred until such requirements are met. Profit is recognized on residential unit sales at the time of closing.

Merchandise Inventories
Costs of merchandise, materials and supplies inventories are generally determined on the moving average basis and the retail method and are stated at the lower of cost or market.

Film Production Costs and Amortization
Costs of completed theatrical and commercial television film productions (negative costs), together with applicable capitalized exploitation costs, are amortized by charges to income in the proportion that gross revenues recognized by the Company during the year for each production bears to the estimated total gross revenues to be received. Estimates of total gross revenues are reviewed periodically and amortization is adjusted accordingly. If unamortized cost exceeds the estimated producers share of film rentals to be received, the carrying value of the film is adjusted to expected net realizable value. Programming costs for The Disney Channel are amortized on a straight-line basis over the estimated useful lives of the programs.

Real Estate Inventories
Real estate inventories are carried at cost not to exceed estimates of net realizable value determined on an individual project basis. Land and land development is apportioned among the projects on the basis of acreage. Marketing and other capitalized predevelopment costs relating to residential and commercial projects are charged to cost of real estate sales as related units are closed.

Entertainment Attractions and Other Property
The Company, at any one point in time, will have a number of projects in the concept, design, or construction phases related to entertainment and recreation attractions, buildings and equipment. All projects in progress are evaluated on a continuing basis and, upon completion, costs of major replacements and improvements are capitalized. If it is determined that a project in progress has no future use, the costs of such project are charged to income under the caption "Design Projects Abandoned."

Depreciation is provided principally on the straight line method using estimated service lives ranging from four to fifty years.

Notes to Consolidated Financial Statements, continued

Other Assets
Deferred preopening and start-up costs relating to Epcot Center and The Disney Channel are being amortized over five years.

Rights to the name, likeness and portrait of Walt Disney are being amortized over forty years.

Taxes on Income
Taxes are provided on all revenue and expense items included in the Consolidated Statement of Income, regardless of the period in which such items are recognized for income tax purposes, except for items representing a permanent difference between pretax accounting income and taxable income. In fiscal 1984, the method of accounting for investment tax credits was changed from the deferral method, which amortizes the credits over the estimated useful lives of the related assets, to the flow-through method, which reduces the provision for taxes on income in the year the related assets are placed into service (Note 4).

Stock Options
Proceeds from the sale of common stock issued under stock option plans are accounted for as capital transactions. If stock appreciation rights are granted in connection with options granted, income is charged or credited over the vesting period for the difference between the market price of the Company's stock and the option price of the appreciation rights outstanding.

Earnings per Share
Earnings per common and common equivalent share are computed on the basis of the average number of shares outstanding during each year, retroactively adjusted to give effect to all stock splits and stock dividends. It is assumed that all dilutive stock options are exercised at the beginning of each year and that the proceeds are used to purchase shares of the Company's common stock at the average market price during the year.

2. Acquisition

On June 6, 1984, the Company acquired all of the outstanding common stock of Arvida Corporation (Arvida) in exchange for 3.3 million shares of the Company's common stock. The acquisition was accounted for under the pooling of interests method. For reasons stated below, the Company's consolidated financial statements for periods ended prior to December 31, 1983 exclude the operating results of Arvida.

In December, 1983, all of the outstanding common stock of Arvida was acquired by Arvida Acquisition Company (AAC) from the Pennsylvania Company, a wholly owned subsidiary of The Penn Central Corporation. AAC was liquidated and merged into Arvida (the predecessor company) which became the surviving corporation. This acquisition of Arvida, effective December 31, 1983, was accounted for as a purchase and, accordingly, a new accounting basis was established. Because of these circumstances, the Company does not believe that Arvida's financial statements after December 31, 1983 are comparable to those of the predecessor company. Accordingly, Arvida's financial position and results of operations are included in the consolidated financial statements of the Company for the period commencing January 1, 1984.

Unaudited revenues and net income (before accounting change for investment tax credits) for the Company for the six months ended March 31, 1984 (the nearest interim period prior to the combination) were $648 and $31 million, respectively. Unaudited revenues and net income for Arvida for the three months ended March 31, 1984 were $61 and $9 million, respectively.

3. Unusual Charges

Management recently completed an analysis and evaluation of certain Company assets and of various options for growth in relation to newly defined corporate strategies and emerging business opportunities. Such strategies relate to a redirection of the Company's filmed entertainment business and a decision to limit to pre-Epcot Center levels further annual investments in the existing theme parks. As a result of this assessment, the Company recorded unusual charges of approximately $166 million in the fourth quarter of fiscal 1984. The charges include a provision for write-downs to estimated net realizable values of $112 million for motion picture and television properties in release, in production and under development (Filmed Entertainment segment), $40 million for the abandonment of certain projects in conceptual design and development for Walt Disney World or Disneyland (Corporate segment) and $14 million for the estimated cost of other restructuring measures (Corporate segment).

In addition to the above unusual charges, the Company incurred $20 million of certain nonrecurring corporate general and administrative expenses mostly in the fourth quarter of fiscal 1984. The expenses consisted principally of fees related to a terminated acquisition, costs of the Arvida merger and costs associated with changes in executive management.

4. Accounting Change

To conform with accounting practices predominantly used in industries in which the Company operates, the Company elected to change its method of accounting for investment tax credits (ITC) from the deferral method to the flow-through method in the fourth quarter of fiscal 1984. The Company was required to record the change effective October 1, 1983; it resulted in the recognition of $76 million of cumulative deferred ITC as part of net income in the first quarter of fiscal 1984 ($2.20 per share for the quarter and $2.12 per share for the year due to the greater number of average shares outstanding). If the flow-through method had been used for the first three quarters of fiscal year 1984, net income would not have been materially different from that reported. If the flow-through method had been used in fiscal years 1983 and 1982, net income would have increased to $111 million ($3.22 per share) and $139 million ($4.20 per share), respectively, due principally to the high level of credits earned on Epcot Center investments.

5 *Borrowings* (In thousands)

Borrowings consist of the following:

	1984	1983
Borrowings under unsecured revolving line of credit	$250,000	
Commercial paper	200,175	$118,200
Borrowings of subsidiary under unsecured real estate term loan and revolving line of credit	158,000	
15.75% Eurodollar notes, due September 1, 1986 and redeemable at option of Company after September 1, 1984, interest payable annually	100,000	100,000
12.50% Eurodollar notes, due March 15, 1989 and redeemable at option of Company after September 15, 1986, interest payable annually	75,000	75,000
8.60% yen term loan, due February 1, 1993, principal payable in semi-annual installments of $3,125	53,125	59,375
6.00% to 13.50% notes payable due in varying amounts through 1991, secured by real estate inventories and certain property	25,609	
	$861,909	$352,575

Revolving Line of Credit and Commercial Paper

The Company has available through May, 1987 an unsecured revolving line of bank credit of up to $1.3 billion for general corporate purposes. The Company has the option to borrow at various interest rates not to exceed the bank's prime rate. In May, 1987, any amounts outstanding may be converted into a four-year term loan at ¼ of 1% above the prime rate. The Company is required to pay a commitment fee on the unused portion of the line and to meet certain financial covenants, including net worth and capitalization ratio requirements. The line is available to support commercial paper borrowings and intermediate notes. As of September 30, 1984, the Company had outstanding $250 million under the line with interest at 12.36% and had issued $200 million of commercial paper used for current operations with interest at 11.38%.

Term Loans

Under a real estate term loan and revolving line of credit agreement, the Company's subsidiary, Arvida Corporation, has a $132 million term loan outstanding due in varying amounts through December, 1991. Arvida also has available through that date an unsecured revolving line of credit of up to $50 million for general real estate operating purposes, of which $26 million was outstanding at September 30, 1984. Arvida has the option to borrow at ¾ of 1% above the certificate of deposit or LIBOR rates. At September 30, 1984, interest averaged 12.44% on these borrowings. Arvida is required to meet, among other things, certain minimum net worth, capitalization and cash flow requirements. In addition, payment provisions of the term loan and line of credit agreement require scheduled payments and prepayments based on Arvida's cash flow levels and proceeds from certain asset sales, as defined.

The Company previously entered into an 8.60% Japanese yen term loan and a forward exchange contract which effectively converted $50 million of the $75 million 12.50% Eurodollar notes into yen equivalents. This 7.40% yen borrowing is due March 14, 1989 with interest payable annually. The Company has hedged these yen borrowings by designating its cumulative royalty receipts from Tokyo Disneyland to service principal and interest yen payments, thus offsetting the impact of exchange rate fluctuations.

Term loans and notes payable mature as follows: $10,800–1985; $28,500–1986; $36,800–1987; $41,800–1988; $52,800–1989; and $40,000 thereafter.

Eurodollar Offerings

In September, 1984, the Company authorized the issuance of 12.50% Eurodollar notes for $150 million; the proceeds were received in fiscal 1985. The notes will mature on October 1, 1987 and are not redeemable prior to maturity, except in the event of certain changes affecting United States tax law. The net proceeds from the sale of the notes (approximately $148 million) were used by the Company to reduce outstanding borrowings under the revolving line of credit.

On October 17, 1984, the Company called for the redemption of the $100 million 15.75% Eurodollar notes as of November 30, 1984.

Capitalization of Interest

The Company capitalizes interest costs on assets constructed for its theme parks, Epcot Center and real estate developments and on theatrical and television productions in process. In 1984, the Company capitalized $32.1 million of $75.8 million total interest costs incurred. In 1983, $25.4 million of a total $43.3 million in interest costs were capitalized. In 1982, the total interest costs incurred of $24.4 million were capitalized.

6 *Taxes on Income* (In thousands)

The income before provision and the provision (benefit) for taxes on income consist of the following:

	1984	1983	1982
Income (loss) before provision for taxes on income			
Domestic (including U.S. exports)	$ (7,445)	$140,725	$167,083
Foreign subsidiaries	24,178	22,735	11,710
Total income before provision (benefit) for taxes on income	$ 16,733	$163,460	$178,793
Provision (benefit) for taxes on income currently payable (refundable)			
Federal	$(54,007)	$(67,906)	$(29,109)
State	(105)	2,369	3,485
Foreign			
Foreign subsidiaries	8,821	8,737	5,275
Other	7,019	6,751	5,407
Total currently refundable	(38,272)	(50,049)	(14,942)
Deferred			
Federal	31,967	123,818	96,627
State	1,305	6,531	5,215
Investment credits amortized		(10,000)	(8,200)
Total deferred	33,272	120,349	93,642
Total provision (benefit) for taxes on income	$ (5,000)	$ 70,300	$ 78,700

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The significant components of deferred taxes on income included in the provision (benefit) for taxes on income are as follows:

	1984	1983	1982
Excess of tax over book depreciation and amortization	$ 73,810	$ 89,193	$ 54,090
Difference between investment credits claimed for tax purposes and amortization under deferral method for financial reporting purposes (Note 4)		17,000	39,741
Interest capitalized for financial reporting purposes	13,230	12,700	11,840
Epcot Center expenses deferred for financial reporting purposes	(2,790)	990	9,400
Difference between Epcot Center participant fees included in income for tax purposes and deferred for financial reporting purposes	(2,820)	(5,584)	(16,280)
Difference between unusual charges included in expense for financial reporting purposes and deferred for income tax purposes (Note 3)	(45,170)		
Other	(2,988)	6,050	(5,149)
Total provision for deferred taxes on income	$ 33,272	$120,349	$ 93,642

Primarily as a result of excess of tax over book depreciation relating to Epcot Center, the Company recorded estimated claims for refundable income taxes of $60,000 at September 30, 1984 ($70,000-1983). As a result of these losses for tax purposes, the Company has tax basis foreign tax credit carryforwards of approximately $11 million expiring in 1989.

The difference between the U.S. federal income tax rate and the Company's effective income tax (benefit) rate is explained below:

	1984	1983	1982
Federal income tax rate	46.0%	46.0%	46.0%
State income taxes, net of federal income tax benefit	3.9	2.9	2.6
Reduction in taxes resulting from investment tax credits (Note 4)	(53.8)	(6.1)	(4.6)
Difference in carrying values of certain Arvida assets and liabilities for tax and financial reporting purposes (Note 2)	(44.0)		
Nondeductible acquisition and other costs	11.2		
Amortization of Walt Disney name rights	2.6	0.3	
Other	4.1	(0.1)	
Effective income tax (benefit) rate	(30.0%)	43.0%	44.0%

7 *Pension Programs* (In thousands)

The Company contributes to various tax-qualified pension plans under union and industry-wide agreements. Contributions are based upon the hours worked or by gross wages paid to covered employees. The Company's share of the unfunded liability, if any, related to these multi-employer plans is not determinable.

In addition, the Company has tax-qualified pension plans covering most of its domestic salaried and hourly employees not covered by union or industry-wide pension plans, and a non-qualified, unfunded key employee retirement plan.

In May, 1984, the Company restructured its pension program with respect to its salaried employees. The restructured pension program for salaried employees provides for the replacement and enhancement of certain benefits previously provided under the existing tax-qualified and non-qualified pension plans.

All of the pension plans maintained by the Company, except for the amended and restated non-qualified plan for key management employees, are funded by Company contributions, and, where applicable, by employee contributions to trusts administered by banks. A comparison of the accumulated plan benefits for these pension plans with net assets available for benefits as of the dates of the latest actuarial valuations is as follows:

	1984	1983
Vested	$60,700	$43,000
Nonvested	11,000	8,800
Actuarial present value of accumulated plan benefits	$71,700	$51,800
Net assets available for benefits	$73,100	$58,600

The 1984 actuarial present value of accumulated plan benefits was calculated based upon the plans' actuarial interest rate assumptions ranging from 9½% to 12%. The 1983 actuarial present value of accumulated plan benefits was calculated based on the Pension Benefit Guaranty Corporation weighted average interest rate assumption of 8¼%.

The Company's non-qualified and unfunded pension plan for key management employees as amended in May, 1984, provides certain benefits that have not been replaced by the restructured pension program for salaried employees. After adjusting for the restructuring of the pension program and funding of $24,338, the amount accrued as a liability under this plan was reduced to $4,273 at September 30, 1984 from $21,520 at September 30, 1983.

The aggregate amounts expensed for all of these plans were $11,100, $9,600 and $9,300 for fiscal years 1984, 1983 and 1982, respectively, including amortization of actuarially computed prior service costs, where applicable, over periods ranging up to thirty years. The May, 1984 program changes are estimated to increase annual pension expense $6 million, commencing in fiscal 1985.

8 *Stock Option and Ownership Plans*

(In thousands, except share data)

Stock Option Plans

The Company grants stock options under its 1973 and 1980 Stock Option Plans and under its 1981 Incentive Plan to key executive, management and creative personnel at prices equal to market price at date of grant. The options and prices set forth below have been adjusted, where applicable, for all subsequent stock splits and stock dividends.

Transactions under the various Plans during fiscal year 1984 were as follows:

	Number of Shares	
	Options Granted	Available For Grant
Outstanding September 30, 1983 ($20.77 to $80.63 per share)	996,200	639,958
Options terminated	(85,262)	73,882
Options granted	158,900	(158,900)
Options exercised	(85,043)	
SAR's exercised	(30,308)	
Outstanding September 30, 1984 ($20.77 to $64.31 per share)	954,487	554,940

Options are exercisable beginning not less than one year after date of grant. All options expire ten years after date of grant. At September 30, 1984, options on 176,343 shares granted under the 1973 Plan were exercisable at $20.77 to $55.25 per share; options on 317,869 shares granted under the 1980 Plan were exercisable at $51.75 to $64.31 per share; and options on 79,650 shares granted under the 1981 Stock Option Plan, a component of the 1981 Incentive Plan, were exercisable at $55.25 per share.

The 1980 Stock Option Plan and 1981 Incentive Plan permit the granting of stock appreciation rights (SAR's) in connection with any option granted under these plans or under the 1973 Stock Option Plan. In lieu of exercising a stock option, SAR holders are entitled, upon exercise of an SAR, to receive cash or common shares or a combination thereof in an amount equal to the excess of the fair market value of such shares on the date of exercise over the option price.

As of September 30, 1984, SAR's were outstanding with respect to 285,754 shares subject to options under the 1973 and 1980 Stock Option and 1981 Incentive Plans. These SAR's were granted to a limited number of key employees. Income and overhead accounts were credited with $905 during fiscal year 1984 (charged with $3,460 — 1983 and $1,869 — 1982) with respect to SAR's.

Effective September 22, 1984, the Company entered into employment agreements with certain executives, pursuant to which the Company has agreed, among other things, to provide for bonus compensation computed on the Company's net income in excess of a certain level, as defined.

In addition, stock options were subsequently granted such executives for the acquisition of an aggregate 970,000 common shares at $57.44 per share, becoming exercisable in annual installments from 1985 through 1989. The new stock option plan pursuant to which these options were granted is subject to approval at the annual meeting of stockholders in February, 1985.

Stock Ownership Plans
The Company has a Payroll Based Employee Stock Ownership Plan (PAYSOP) effective January 1, 1983 for all regular employees, as defined, with three years of service. Under the Plan's provisions, the Company claims an additional ½ of 1% of compensation of covered participants as an income tax credit and pays such an amount to a trust which then purchases shares of the Company's stock in the open market for the employees' benefit. Relating to fiscal 1983, $1,144 was used to purchase 21,409 shares of common stock.

The Company also had an Employee Stock Ownership Plan (ESOP) for salaried employees. This Plan was amended to comply with the Economic Recovery Tax Act of 1981 and as a result, contributions were terminated as of December 31, 1982. As of that date, under the Plan's provisions, the Company claimed an additional 1% of the Company's qualified capital investments as an investment tax credit and paid such an amount to a trust which then purchased shares of the Company's stock in the open market for the employees' benefit. Relating to fiscal 1983 and 1982, respectively, $1,131 and $4,711 have been used to purchase 21,484 and 74,612 shares of common stock. The Company also claimed a further tax credit equal to an additional ½% of the Company's qualified capital investments which was used to match employee contributions. Relating to fiscal years 1983 and 1982, respectively, the matching employer contributions of $360 and $2,115 have been used to purchase 13,790 and 67,106 shares of common stock.

9 Stockholders Equity
(In thousands, except per share data)

	Common Shares Issued and Outstanding		
	Number	Amount	Retained Earnings
Balance at September 30, 1981	32,433	$ 540,935	$626,183
Exercise of stock options	30	917	
Income tax benefit from exercise of stock options		198	
Common stock issued for Retlaw acquisition	888	46,200	
Dividends ($1.20 per share)			(39,742)
Net income			100,093
Balance at September 30, 1982	33,351	588,250	686,534
Exercise of stock options	128	4,784	
Income tax benefit from exercise of stock options		1,657	
Stock offering in February, 1983	1,100	70,883	
Common stock returned (i)	(70)	(3,640)	
Dividends ($1.20 per share)			(41,100)
Net income			93,160
Balance at September 30, 1983	34,509	661,934	738,594
Exercise of stock options	85	3,062	
Income tax benefit from exercise of stock options		856	
Common stock repurchased (ii)	(4,198)	(327,679)	
Common stock issued (Note 2)	3,333	21,815	
Dividends ($1.20 per share)			(40,941)
Net income			97,844
Balance at September 30, 1984	33,729	$ 359,988	$795,497

(i) The acquisition for common stock in January, 1982 of certain assets from Retlaw Enterprises, Inc. (a company owned by the family of the late Walter E. Disney) was adjusted in fiscal 1983 by the return of 70,000 common shares resulting from the settlement of a stockholders' suit.

(ii) On June 11, 1984, the Company repurchased 4.2 million shares of the Company's common stock from Reliance Insurance Company at an aggregate cost, including related expenses, of $327.7 million. This repurchase was financed by borrowings under the Company's revolving line of credit. On a pro forma basis, if the 4.2 million shares had been repurchased at the beginning of fiscal 1984, the effect would have been to reduce net income $14 million ($.43 per share) for fiscal 1984 on lower average number of shares outstanding of 33 million. In addition, dividends would have been reduced by $2.5 million. The pro forma information assumes interest on borrowed funds at 10% through June, 1984.

The repurchase agreement also provides that, if within one year of the repurchase date, a per share price in excess of $80.00 per share of the Company's common stock is paid pursuant to any merger or consolidation of the Company with or into any other entity or any sale of all or substantially all of the assets of the Company or any tender offer for all the Company's common shares which is recommended by the Company's Board of Directors, the Company is to pay Reliance the difference between such higher price and $80.00 per share multiplied by the 4.2 million shares repurchased.

On November 27, 1984, the Board of Directors authorized a stock repurchase program under which the Company may purchase, from time to time, up to 3.5 million shares of the Company's outstanding common stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Detail of Certain Balance Sheet Accounts (In thousands)

*Film Production Costs**	1984	1983
Released, less amortization	$ 66,746	$ 60,399
Completed, not yet released	4,511	26,599
In process	31,205	40,012
	$102,462	$127,010

*Includes theatrical and television film production and programming costs

Real Estate Inventories	1984
Completed	$ 18,943
In progress	154,192
Land	56,289
	$229,424

Other Assets	1984	1983
Walt Disney name rights, net of amortization	$ 35,270	$ 35,995
Epcot Center and The Disney Channel preopening and start-up costs, net of amortization	24,948	32,545
Prepaid expenses	23,791	19,843
Other	34,627	23,247
	$118,636	$111,630

Accounts Payable, Payroll and Other Accrued Liabilities	1984	1983
Accounts payable	$128,325	$ 80,344
Payroll and employee benefits	79,573	56,662
Property, payroll and other taxes	17,703	13,830
Key employee retirement plan (Note 7)	4,273	21,520
Cash dividends payable	10,118	10,353
	$239,992	$182,709

Unearned Deposits and Advances	1984	1983
Epcot Center participation fees*	$ 93,372	$ 85,146
Other unearned deposits and advances	85,535	24,410
	$178,907	$109,556

*Pursuant to participation agreements with corporate sponsors, the Company expects to have received approximately $393 million in Epcot Center participant fees through 1995 of which $141 million has been received as of September 30, 1984

11 Business Segments (In thousands)

The Company operates in four business segments: Entertainment and Recreation, Filmed Entertainment, Community Development and Consumer Products. These business segments are identified in the Description of the Business in Note 1.

The Consolidated Statement of Income presents revenues and operating income by business segment. Operating income excludes unusual charges of $166 million (Note 3). The Filmed Entertainment business segment includes operating losses incurred by The Disney Channel of $35 and $28 million for fiscal years 1984 and 1983, respectively. The Disney Channel commenced operations in April, 1983. Additional financial information relative to business segments follows.

Total consolidated revenues include foreign revenues (export sales) related to the following geographic areas

	1984	1983	1982
Europe	$ 70,459	$ 68,464	$ 82,242
Far East and Australia	50,851	47,207	26,826
Western Hemisphere (excluding the United States)	23,691	22,082	24,706
Other	3,916	3,046	1,845
	$148,917	$140,799	$135,619

Capital expenditures for entertainment attractions and other property by business segment were:

	1984	1983	1982
Entertainment and recreation	$145,295	$287,940	$645,632
Filmed entertainment	23,959	1,845	2,794
Community development	6,509		
Consumer products	244	222	66
Corporate	6,044	1,195	273
	$182,051	$291,202	$648,765

Depreciation expense of entertainment attractions and other property by business segment was:

	1984	1983	1982
Entertainment and recreation	$100,497	$88,059	$40,078
Filmed entertainment	3,027	1,643	1,517
Community development	2,094		
Consumer products	147	135	118
Corporate	842	347	204
	$106,607	$90,184	$41,917

Amortization expense of film production and programming costs included in the Filmed Entertainment business segment, before unusual charges, was $54.1, $65.6 and $64.9 million for fiscal years 1984, 1983 and 1982, respectively.

Identifiable assets by business segment were:

	1984	1983	1982
Entertainment and recreation	$2,012,553	$2,018,787	$1,808,731
Filmed entertainment	185,750	180,201	146,337
Community development	351,952		
Consumer products	44,579	37,381	34,129
Corporate	144,609	144,826	113,619
	$2,739,443	$2,381,195	$2,102,816

12 Commitments and Contingencies

The Company's subsidiary, Buena Vista Distribution Co., Inc., is a defendant with other motion picture distributors in a number of private treble damage actions asserting claims under the federal anti-trust laws. These actions, which have been filed over several years and which seek damages aggregating hundreds of millions of dollars, are in various stages of pre-trial proceedings. The Company has denied the material allegations of the complaints in these actions, and in the opinion of management and counsel, the Company will not suffer any material liability by reason thereof.

During June and July, 1984, a number of lawsuits were filed alleging, among other things, breaches of fiduciary duties by members of the Company's Board of Directors in connection with the acquisition of Arvida (Note 2) and the Company's repurchase of its common stock from Reliance (Note 9). Plaintiffs seek, among other things, rescission of the two transactions. In the opinion of management and counsel, the Company does not expect to suffer any material monetary liability by reason thereof.

In addition, the Company is a defendant in various routine litigation incident to the conduct of its business. In the opinion of management, the Company will not suffer any material liability by reason thereof.

SUPPLEMENTARY INFORMATION REGARDING INFLATION AND CHANGING PRICES

General Background

Inflation has become a subject of significance in the U.S. economy during the past decade. During periods of continuing inflation the purchasing power of the dollar is eroded, meaning that it requires more dollars to purchase the same goods and services.

The primary financial statements traditionally reflect the historic cost rather than the current cost of assets required to maintain an enterprise's productive capability. Transactions are recorded in terms of the number of dollars actually received or expended without regard to changes in the purchasing power of the currency or changes in the cost of goods and services consumed.

There is no universally accepted method for measuring the effect of inflation in financial statements. In recognition of the need, however, to provide readers of financial statements with information to assist them in assessing that impact, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices" (SFAS 33). The general objectives of reporting the effects of changing prices as expressed in SFAS 33 are to help users assess (a) future cash flows, (b) the maintenance of operating capability, (c) financial performance, and (d) the maintenance of general purchasing power.

On November 20, 1984, the FASB issued Statement of Financial Accounting Standards No. 82, "Financial Reporting and Changing Prices: Elimination of Certain Disclosures" (SFAS 82), removing the need for the presentation of two supplementary income computations as required by SFAS 33. One computation, constant dollar, deals with the effect of general inflation, and the other, current cost, deals with the effects of changes in the specific prices of resources used in the operation of the enterprise. Although SFAS 82 will be effective for fiscal years ending on or after December 15, 1984, the Company adopted early the provisions of the Statement to its fiscal 1984 financial reporting.

In computing income from continuing operations adjusted for changing prices, the Company has not experienced a material difference in the amount disclosed under the two methods. As a result, consistent with SFAS 82, the Company has elected to present only constant dollar information beginning with fiscal year 1984. Under the constant dollar method, historical cost financial information is adjusted only for changes that have occurred in the general purchasing power of the dollar as measured by the Consumer Price Index for all Urban Consumers (CPI-U).

Constant dollar adjustments for the current fiscal year are as follows:

SUPPLEMENTARY STATEMENT OF CONSOLIDATED INCOME ADJUSTED FOR CHANGING PRICES

Year ended September 30, 1984
(In thousands, except per share data)

	As Included In Primary Financial Statements (Historical Cost)	As Adjusted For General Inflation (Constant Dollar)
Revenues	$1,655,977	$1,655,977
Costs and expenses		
Cost of goods sold	311,630	315,150
Depreciation	106,607	159,100
Amortization	54,134	58,200
Other expenses and unusual charges	1,125,135	1,125,135
Interest expense — net	41,738	41,738
Taxes on income (benefit)	(5,000)	(5,000)
Total costs and expenses	1,634,244	1,694,323
Income (loss) from continuing operations	$ 21,733	$ (38,346)
Gain from decline in purchasing power of net amounts owed		$ 41,300

At September 30, 1984 the constant dollar/historical cost of inventories was $313,000, film production costs net of amortization was $114,000 and entertainment attractions and other property net of accumulated depreciation was $2,769,000.

Net assets at year end are increased by $836 million when the cost of inventories, film production costs and entertainment attractions and other property are adjusted to average 1984 dollars. This increase in the valuation of assets results in an increase in depreciation expense of $52 million. This adjustment of depreciation expense is the primary cause of the decrease in net income adjusted for the effects of inflation. In computing the above amounts, normal service lives and depreciation/amortization rates have been applied to the adjusted amounts. No adjustments are made to fully depreciated assets currently utilized in the Company's business. Revenues and all other expenses are considered to reflect the average price levels for the year and accordingly have not been adjusted.

In accordance with SFAS 33, no adjustment has been made to the provision (benefit) for income taxes included in the supplementary statement of income.

Net monetary assets represent cash or claims to cash less amounts owed. When prices are increasing, the holding of monetary assets results in a loss in general purchasing power. Similarly, amounts owed produce a gain in general purchasing power because the amount of money required to settle the liabilities represents dollars of diminishing purchasing power. At September 30, 1984, the excess of monetary liabilities over monetary assets resulted in a net gain in purchasing power. This gain is presented as supplementary information and has not been included in net income adjusted for changing prices.

As required by SFAS 33, certain selected financial data are restated based on the average CPI-U for the year for each of the five years shown. The amounts as expressed in average 1984 dollars are as follows:

SUPPLEMENTARY INFORMATION REGARDING INFLATION AND CHANGING PRICES, continued

FIVE YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES IN CONSTANT DOLLARS

In Average 1984 Dollars
(In thousands, except for per share data)

Year ended September 30	1984	1983	1982	1981	1980
Revenues	$1,655,977	$1,360,700	$1,109,900	$1,163,000	$1,175,300
Net income (loss) from continuing operations	(38,346)	50,500	65,200	95,200	121,900
Earnings (loss) per share from continuing operations	(1.07)	1.47	1.96	2.92	3.75
Net assets at year end	1,991,900	2,216,800	2,047,000	1,967,100	1,953,500
Cash provided by operations	414,036	351,000	295,900	244,100	262,700
Investment in entertainment attractions and other property	194,142	347,300	661,700	386,100	192,100
Investment in film production and programming costs	127,595	87,100	56,300	64,200	87,800
Cash dividends per common share	1.20	1.25	1.29	1.16	.93
Market price per common share at year end	59.13	63.29	61.01	54.10	60.73
Gain (loss) from decline in purchasing power of net amounts owed (monetary assets)	41,300	22,300	21,100	4,600	(25,700)
Average consumer price index	308	296	286	266	240

Management's Comments and Conclusions

Inflation accounting as required by SFAS 33 involves the use of numerous assumptions, approximations, and estimates, and should be viewed in that context and not as a precise indicator of the effects of inflation. The reader is cautioned not to attach too much significance to any one year's adjusted results. Even when several years are viewed consecutively, the information is considered to be of limited use until the reader completely understands the principles and concepts utilized in compiling the data.

Although not required information by SFAS 33, the Company has provided additional selected supplementary financial data relating to cash provided by operations, investment in entertainment attractions and other property and investment in film production and programming.

As noted previously, net income in this presentation has been significantly reduced from net income reported in the primary financial statements due to the additional theoretical depreciation which has been adjusted for inflation. However, the Company does not believe that this hypothetical calculation has much relevance to its operations. The Company believes that cash provided by operations provides a more meaningful insight into the impact of inflation, because it excludes non-cash charges such as depreciation. Cash provided by operations has increased at an annual average rate of 13% when expressed in average 1984 dollars (compared to an annual rate of 21% as reflected in the primary financial statements).

Elsewhere in this report the Company discusses its continuing program of investing in the future through its capital improvements program, intended to maintain and/or to increase its productive capability. However, the Company is not confronted with a problem of replacing very old and worn-out capital assets as a result of carefully planned and comprehensive refurbishing programs. As reflected in the selected data, the Company has invested almost $2.2 billion in productive assets over the last five years (compared to approximately $2.0 billion as reflected in the primary financial statements). To the extent that these expenditures are replacing existing assets, it is presumed that the costs in 1984 dollars are significantly higher than the costs of the original assets.

QUARTERLY FINANCIAL SUMMARY
(In thousands, except per share data)

	December 31**	March 31	June 30	September 30**
OPERATIONS BY QUARTER				
1984				
Revenues				
Entertainment and recreation	$224,895	$244,262	$314,610	$313,592
Filmed entertainment	46,585	73,612	67,841	56,514
Community development		61,185	74,609	68,590
Consumer products	30,679	28,242	26,259	24,502
	$302,159	$407,301	$483,319	$463,198
Income (Loss) Before Corporate Expenses and Unusual Charges				
Entertainment and recreation	$ 21,377	$ 38,348	$ 68,075	$ 64,895
Filmed entertainment	(6,120)	1,070	7,728	(429)
Community development		12,678	17,782	11,766
Consumer products	16,252	15,832	11,240	10,539
	$ 31,509	$ 67,928	$104,825	$ 86,771
Income Before Unusual Charges, Taxes on Income and Accounting Change	$ 16,091	$ 51,492	$ 81,557	$ 33,553
Net Income (Loss)	$ 85,102	$ 31,313	$ 45,436	$ (64,007)
*Earnings (Loss) per Share**	$2.46	$0.82	$1.23	($1.89)
1983				
Revenues				
Entertainment and recreation	$203,698	$239,741	$288,936	$298,827
Filmed entertainment	41,338	46,109	40,533	37,478
Consumer products	25,106	29,826	29,032	26,733
	$270,142	$315,676	$358,501	$363,038
Income (Loss) Before Corporate Expenses				
Entertainment and recreation	$ 24,898	$ 44,930	$ 67,438	$ 59,612
Filmed entertainment	5,780	6,512	(32,226)	(13,451)
Consumer products	11,841	17,812	15,793	11,436
	$ 42,519	$ 69,254	$ 51,005	$ 57,597
Income Before Taxes on Income	$ 30,414	$ 54,020	$ 38,230	$ 40,796
Net Income	$ 17,214	$ 30,020	$ 21,430	$ 24,496
*Earnings per Share**	$0.51	$0.87	$0.61	$0.70

*Quarterly earnings per share amounts do not necessarily total to the year end earnings per share amount due to the varying amounts of average shares outstanding during the periods.

**See Notes 3 and 4 of Notes to Consolidated Financial Statements for description of fourth quarter fiscal 1984 unusual charges, nonrecurring corporate general and administrative expenses and first quarter fiscal 1984 accounting change.

MARKET PRICE AND DIVIDEND DATA				
1984				
Price per share:				
High	$64	$68	$68½	$64½
Low	$47¼	$48⅜	$46¼	$45¼
Dividend per share	$0.30	$0.30	$0.30	$0.30
1983				
Price per share:				
High	$71½	$78¾	$84¾	$68¼
Low	$55	$60⅛	$65	$55⅞
Dividend per share	$0.30	$0.30	$0.30	$0.30

The principal market for trading Walt Disney Productions common stock is the New York Stock Exchange.

SELECTED FINANCIAL DATA

(In thousands, except Per Share and Other Data)

	1984	1983	1982	1981	1980
Statement of Income Data					
Revenues (Page 47)	$1,655,977	$1,307,357	$1,030,250	$1,005,040	$ 914,505
Income before corporate expenses	291,033	220,375	200,116	214,664	231,300
Corporate expenses	66,602	42,849	36,104	30,814	25,424
Interest expense (income)—net	41,738	14,066	(14,781)	(33,130)	(42,110)
Unusual charges*	165,960				
Taxes on income (benefit)	(5,000)	70,300	78,700	95,500	112,800
Change in accounting for investment tax credits*	(76,111)				
Net income	97,844	93,160	100,093	121,480	135,186
Balance Sheet Data					
Film production costs	102,462	127,010	108,067	120,640	120,408
Real estate inventories	229,424				
Entertainment attractions and other property, net of depreciation	1,937,346	1,871,809	1,673,238	1,069,369	762,546
Total assets	2,739,443	2,381,195	2,102,816	1,610,009	1,347,407
Borrowings	861,909	352,575	315,000	110,000	
Total liabilities and deferred credits	1,583,958	980,667	828,032	442,891	272,609
Total net assets (stockholders equity)	1,155,485	1,400,528	1,274,784	1,167,118	1,074,798
Statement of Changes in Financial Position Data					
Cash provided by operations	414,036	337,356	274,782	210,805	204,682
Cash dividends	40,941	41,100	39,742	32,406	23,280
Investment in entertainment attractions and other property	194,142	333,738	614,416	333,407	149,674
Investment in film production and programming costs	127,595	83,750	52,295	55,454	68,409
Per Share Data					
Net income (earnings)	$ 2.73	$ 2.70	$ 3.01	$ 3.72	$ 4.16
Cash dividends	1.20	1.20	1.20	1.00	.72
Stockholders equity	34.26	40.58	38.22	35.99	33.22
Average number of common and common equivalent shares outstanding during the year (in thousands)	35,849	34,481	33,225	32,629	32,513
Other Data					
Stockholders at close of year	62,000	60,000	61,000	60,000	62,000
Employees at close of year	28,000	30,000	28,000	25,000	24,000

*See Notes 3 and 4 of Notes to Consolidated Financial Statements for description of fourth quarter fiscal 1984 unusual charges, nonrecurring corporate general and administrative expenses and first quarter fiscal 1984 accounting change

Other Financial Data
(In thousands)

	1984	1983	1982	1981	1980
Entertainment and Recreation					
Walt Disney World					
Admissions and rides	$ 295,921	$ 278,320	$153,504	$139,326	$130,144
Merchandise sales	182,804	172,324	121,410	121,465	116,187
Food sales	177,078	178,791	121,329	114,951	106,404
Lodging	104,779	98,105	81,427	70,110	61,731
Disneyland					
Admissions and rides	110,723	102,619	98,273	92,065	87,066
Merchandise sales	79,260	72,300	76,684	79,146	72,140
Food sales	46,770	45,699	44,481	44,920	41,703
Participant fees, Walt Disney Travel Co., Tokyo Disneyland royalties and other	100,024	83,044	28,502	29,828	28,005
	$1,097,359	$1,031,202	$725,610	$691,811	$643,380
Theme park total attendance					
Walt Disney World	21,121	22,712	12,560	13,221	13,783
Disneyland	9,869	9,980	10,421	11,343	11,522
	30,990	32,692	22,981	24,564	25,305
Filmed Entertainment					
Theatrical					
Domestic	$ 70,679	$ 38,635	$ 55,408	$ 54,624	$ 63,350
Foreign	38,182	43,825	64,525	76,279	78,314
Television					
Worldwide	57,479	27,992	44,420	43,672	19,736
Home Video and Non-Theatrical					
Worldwide	78,212	55,006	37,749	22,231	10,565
	$ 244,552	$ 165,458	$202,102	$196,806	$171,965
Community Development					
Residential	$ 53,038				
Land and commercial property	90,166				
Resort operations and other	61,180				
	$ 204,384				
Consumer Products					
Character merchandising	$ 42,750	$ 45,429	$ 35,912	$ 30,555	$ 29,631
Publications	18,184	20,006	20,821	24,658	22,284
Records and music publishing	33,734	30,666	26,884	27,358	23,432
Educational media	11,509	10,269	15,468	21,148	21,908
Other	3,505	4,327	3,453	12,704	1,905
	$ 109,682	$ 110,697	$102,538	$116,423	$ 99,160

Sharon Disney Lund was elected to the Board of Directors in September. A daughter of the late Walt Disney, Mrs. Lund is vice chairman of Retlaw Enterprises, Inc. She also serves as a trustee of the California Institute of the Arts, the Marianne Frostig Center of Educational Therapy, and the Curtis School. She is a resident of the Los Angeles area.

Joseph F. Cullman III, former chief executive officer of Philip Morris Incorporated, was elected to the Board of Directors in November. He currently serves as chairman emeritus of Philip Morris. He was named America's most outstanding chief executive of the year in 1977 by Financial World Magazine. He is a director of Levi Strauss & Co. and formerly served on the boards of Ford Motor Company, IBM World Trade Europe/Middle East/Africa Corp., Bankers Trust Company and Bankers Trust New York Corporation. He resides in New York City.

Board of Directors

Caroline Leonetti Ahmanson *†
Chairman, Board of Directors
Federal Reserve Bank of San Francisco — 12th District

Robert H. B. Baldwin †§
Chairman, Morgan Stanley, Inc.
(investment bankers)

Charles E. Cobb, Jr. ‡
Chairman and Chief Executive Officer
Arvida Corporation (wholly owned subsidiary of Walt Disney Productions)

Peter H. Dailey (1)
Vice Chairman, The Interpublic Group of Companies
(advertising)

Roy E. Disney
Vice Chairman, Walt Disney Productions

Michael D. Eisner ‡
Chairman and Chief Executive Officer, Walt Disney Productions

Philip M. Hawley †§
President and Chief Executive Officer, Carter Hawley Hale Stores, Inc.
(retail merchandising)

Ignacio E. Lozano, Jr. *†
Publisher, LA OPINION
(newspaper publishing)

Sharon Disney Lund
Businesswoman and philanthropist

Richard A. Nunis ‡
Executive Vice President — Walt Disney World/Disneyland

Donn B. Tatum §
Chairman of the Finance Committee, Walt Disney Productions

E. Cardon Walker
Former Chief Executive Officer, Walt Disney Productions

Raymond L. Watson ‡
Chairman of the Executive Committee, Walt Disney Productions

Frank G. Wells ‡
President and Chief Operating Officer, Walt Disney Productions

Samuel L. Williams *†
Partner, Hufstedler, Miller, Carlson & Beardsley
(law firm)

(1) Effective December 31, 1984, Director-Elect Joseph F. Cullman III will assume the seat held by Director Dailey.

*Member of Audit Review Committee
†Member of Compensation Committee
‡Member of Executive Committee
§Member of Finance Committee

Director Emeritus
William H. Anderson

CORPORATE OFFICERS

Michael D. Eisner
Chairman of the Board and Chief Executive Officer

Frank G. Wells
President and Chief Operating Officer

Roy E. Disney
Vice Chairman of the Board

Michael L. Bagnall
Executive Vice President — Finance

Carl G. Bongirno
Executive Vice President — WED

Barton K. Boyd
Executive Vice President — Consumer Products and Merchandising

Ronald J. Cayo
Executive Vice President — Business Affairs

James P. Jimirro
Executive Vice President — Telecommunications

Jack B. Lindquist
Executive Vice President — Marketing

Richard A. Nunis
Executive Vice President — Walt Disney World/Disneyland

Martin A. Sklar
Executive Vice President — WED Creative Development

John J. Cornwell
Vice President — Management Information Systems

Jose M. Deetjen
Vice President — Tax Administration and Counsel

Dennis M. Despie
Vice President — Entertainment

Luther R. Marr
Vice President — Corporate and Stockholder Affairs

Richard T. Morrow
Vice President — General Counsel

Peter F. Nolan
Vice President — Rights/Business Affairs-Consumer Products

Erwin D. Okun
Vice President — Corporate Communications

Howard M. Roland
Vice President — Construction Contract Administration and Purchasing

Doris A. Smith
Vice President and Secretary

Frank P. Stanek
Vice President — Corporate Planning

Donald A. Escen
Treasurer

Bruce F. Johnson
Controller

Leland L. Kirk
Assistant Secretary-Treasurer

Neal E. McClure
Assistant Secretary

Alvin L. Shelbourn
Assistant Treasurer

Donald E. Tucker
Assistant Treasurer

Douglas E. Houck
Assistant Controller

Joe E. Stevens
Assistant Controller

PRINCIPAL DOMESTIC SUBSIDIARIES, DIVISIONS AND SUBSIDIARY JOINT VENTURES WITH CHIEF OPERATING EXECUTIVES

Arvida/Disney
Arvida Corporation
Disney Development Company
Charles E. Cobb, Jr., Chairman and Chief Executive Officer

Buena Vista International, Inc.
Canasa Trading Corporation
Harold P. Archinal, President

The Disney Channel
Walt Disney Telecommunications and Non-Theatrical Company
James P. Jimirro, President

Disneyland
Disneyland, Inc.
Lake Buena Vista Communities, Inc.
Walt Disney World Co.
WED Transportation Systems, Inc.
Richard A. Nunis, President

MAPO
WED Enterprises
Carl G. Bongirno, President

Reedy Creek Utilities Co., Inc.
Ronald J. Cayo, President

United National Operating Co.
Walt Disney Educational Media Company
Barton K. Boyd, President

Vista Advertising
Walt Disney Travel Co., Inc.
Jack B. Lindquist, President

Vista Insurance Services, Inc.
Philip N. Smith, President

Vista-United Telecommunications (a Florida Partnership)
James Tyler, General Manager

Walt Disney Motion Pictures and Television
Walt Disney Pictures
Buena Vista Distribution Co., Inc.
Jeffrey Katzenberg, President

Walt Disney Music Company
Wonderland Music Company, Inc.
Gary Krisel, President

FOREIGN SUBSIDIARIES WITH PRINCIPAL MARKETING EXECUTIVES

BELGIUM
Walt Disney Productions (Benelux) S.A.
Andre Vanneste

CANADA
Walt Disney Music of Canada Limited
James K. Rayburn

DENMARK
Walt Disney Productions A/S Danmark
Gunnar Mansson

FRANCE
Walt Disney Productions (France) S.A.
Armand Bigle, Richard Dassonville, Dominique Bigle

GERMANY
Walt Disney Productions (Germany) GmbH
Horst Koblischek

ITALY
Creazioni Walt Disney S.p.A.I.
Antonio Bertini

JAPAN
Walt Disney Enterprises of Japan Ltd.
Matsuo Yokoyama

Walt Disney Productions Japan, Ltd.
Yosaku Seki, Mamoru Morita, Mas Imai

PORTUGAL
Walt Disney Portuguesa Criacoes Artisticas Lda
Laszlo Hubay Cebrian

SPAIN
Walt Disney Iberica, S.A.
Enrique Stuyck

UNITED KINGDOM
Walt Disney Productions Limited
Dino Troni, Monty Mendelson, Terry Byrne, Keith Bales

Walt Disney
Productions

500 S. Buena Vista St
Burbank, Ca 91521